

# Understanding Business: The Core, 2e

Nickels | McHugh | McHugh



# UNDERSTANDING **Business** The Core

**NICKELS**

**McHUGH**

**McHUGH**

## Welcome to the 2<sup>nd</sup> Edition of Understanding Business: The Core!

Decades ago, there was a popular program called **“You Asked for It.”** Viewers sent in what they wanted to see and producers gave them what they asked for. As we worked with our loyal *Understanding Business* family on the 2<sup>nd</sup> edition of *The Core*, we asked what you wanted and then did our best to give it to you. The 2<sup>nd</sup> edition is the result of your collaboration with us. We thank you for helping us create a text and package even stronger than it was before.

# YOU ASKED FOR IT, YOU GOT IT!

A letter from the Author Team

## A SIXTEEN-CHAPTER TEXT. HERE'S HOW WE DID IT.

---

Chapter 1 (Taking Risks and Making Profits Within the Dynamic Business Environment) and Chapter 2 (Understanding Economics) were condensed and combined to create **Chapter 1 Exploring the Business Environment and Economics**. The coverage of current trends was integrated throughout the text.

Chapter 11 (Human Resource Management: Finding and Keeping the Best Employees) and Chapter 12 (Dealing with Employee-Management Issues) were condensed and combined to create **Chapter 10 Human Resource Management: Finding and Keeping the Best Employees**.

Chapter 16 (Financial Management) was combined with Chapter 17 (Using Securities Markets for Financing and Investing Opportunities) were condensed and combined to create **Chapter 15 Financial Management**. This revised chapter retains information about raising capital in business. The material about investing in stocks and bonds was moved to Bonus Chapter C Managing Personal Finances and Investing.

Bonus Chapter B (Using Technology to Manage Business) was expanded and included in the main text as a new **Chapter 13 Using Technology to Manage Information**.

## MORE INFORMATION ABOUT CAREERS IN BUSINESS.

---

A section was added to the end-of-chapter material, **Career Exploration**, that offers career opportunities students can explore related to the material covered in the chapter.

## CONTINUOUS COVERAGE OF ISSUES AFFECTING ALL BUSINESSES (SERVICE, MANUFACTURING, PROFIT AND NON-PROFIT).

---

To keep up with the fast-moving world of business, our weekly blog, [From the News to the Classroom](#) is updated several times during the week to keep up with goings-on in business and the economy. Abstracts of relevant news stories, videos tied to chapter topics, and critical thinking questions on the blog will help you with your prep time and create an ultra-current course.

## SUPPLEMENTAL INSTRUCTIONAL MATERIALS THAT ARE ACCURATE AND EASY-TO-USE.

---

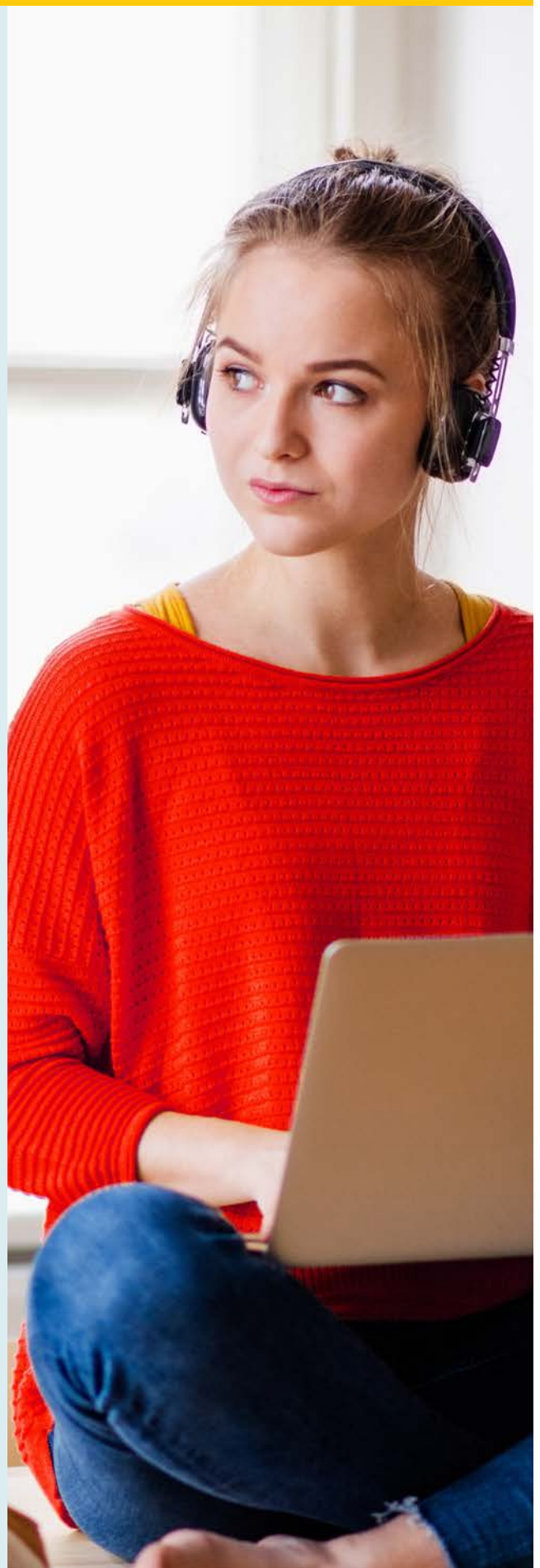
No supplemental materials are as market responsive, easy-to-use, tightly aligned and fully integrated as those in the *Understanding Business: The Core 2<sup>nd</sup> edition*. In addition to the fully reviewed and updated instructor supplements, The Core is also supported by *McGraw-Hill Connect* with *SmartBook 2.0*. The following pages will provide more detail on how the integrated package will help you and your students achieve the results desired.

We are eager to show off the new edition and, of course, we look forward to hearing how you and your students like it. As always, we value our relationship with our fellow instructors who share with us their opinions, input, and advice. It's from this collegial cornerstone that the *2<sup>nd</sup> edition* was created. Together, we'll continue to build the best teaching and learning system to help your students succeed!

**Bill Nickels | Jim McHugh | Susan McHugh**

# Table of Contents

Letter from the Authors .....	2
Moving from 1e to 2e? Detailed List of Changes.....	4
We Take Students Higher Up Blooms.....	16
Application-Based Activities/Mini Sims.....	18
About the Authors .....	22
Preface.....	23
Brief Contents.....	36
Sample Chapter 1 .....	48
Support At Every Step .....	82
Thank You!.....	83



# Detailed List of Changes



## Chapter by Chapter Changes

### Chapter 1 Exploring the Business Environment and Economics

**Integration:** Chapter 1 Taking Risks and Making Profits within the Dynamic Business Environment was integrated with Chapter 2 Understanding Economics and How It Affects Business.

#### **Additions:**

Getting to Know Ann-Marie Campbell of Home Depot

- » Name That Company
- » Making Ethical Decision box: Bad Medicine for Consumers?
- » Adapting to Change box: Services Expand the Circular Economy
- » Reaching Beyond Our Borders box: Inflation at the Speed of Sound
- » Career Exploration

#### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Section “The Business Environment” was condensed to simply describe each element of the business environment. The discussions of trends in each subsection were deleted since they are covered in later chapters.
- » The economics section was reorganized to present command economies first and then the longer discussion about free-market economies.
- » Figure 1.4 (Figure 1.10 in 2e) was redesigned.
- » Figure 2.4 (Figure 1.4 in 2e) was redesigned
- » Subsection “Fiscal Policy in Action during an Economic Crisis” – The key term Keynesian economic theory was moved to the subsection “Stabilizing the Economy through Fiscal Policy”).
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

#### **Deletions:**

- » Subsections “Productivity in the United States” and “Productivity in the Service Sector” - Both are discussed in later chapters.
- » Quality of life
- » Subsection “The Secret to Creating a Wealthy Economy”
- » Gross output
- » Section “Entrepreneurship Versus Working for Others” – This is covered in detail in Chapter 5 Entrepreneurship and Starting a Business.
- » Boxes (from both Ch1&2): Spotlight on Small Business, Making Ethical Decisions, Reaching Beyond Our Borders, and Adapting to Change

## **Chapter 2 Doing Business in Global Markets**

### **Additions:**

- » Getting to Know Tim Cook of Apple
- » Name That Company
- » Connecting through Social Media: My Home is Your Home
- » Making Ethical Decisions: Exporting Your Problems Away
- » Career Exploration
- » Video Case: Dominos Wild World of Pizza

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Reaching Beyond Our Borders: Many Flags Fly over the Golden Arches was revised and updated.
- » Subsection “Common Markets” was updated with a discussion of Brexit and the removal of Venezuela from Mercosur.
- » Subsection “North American and Central American Trade Agreements” was updated and revised.
- » This section also mentions the United States-MexicoCanada Agreement.
- » Figures 3.1, 3.3, 3.5, 3.7, and 3.8 were redesigned and/or updated.

### **Deletions:**

- » Boxes: Spotlight on Small Business and Making Ethical Decisions

## **Chapter 3 Demanding Ethical and Socially Responsible Behavior**

### **Additions:**

- » Getting to Know Evan and Aaron Steed, cofounders of Meathead Movers
- » Name that Company
- » Figure 3.1 Examples of the Largest Corporate Scandals
- » Figure 3.2 Hershey’s Code of Ethics
- » Figure 3.4 Examples of Corporate Social Responsibility Efforts
- » Making Ethical Decisions: Ethics Begins with You
- » Career Exploration
- » Video Case: Gluten Free Bar

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Figure 3.3 was redesigned.
- » Subsection “Responsibility to Customers” was enhanced with brief discussion of Gen Z’s influence.
- » Subsection “Responsibility to Investors” was enhanced with a brief discussion of the 2016 Supreme Court decision regarding insider trading.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Figure 3.1 Ethical Orientation Questionnaire
- » Figure 3.2 J&J’s Code of Ethics
- » Boxes Making Ethical Decisions, Spotlight on Small Business, and Seeking Sustainability



## **Chapter 4 How to Form a Business**

### **Additions:**

- » Getting to Know Peter Cancro, founder and CEO of Jersey Mike's Subs
- » Name that Company
- » Adapting to Change: Kickstarting a Benefit Corporation
- » Spotlight on Small Business: Unlocking a Growing Franchise
- » Career Exploration

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Figures 4.2, 4.3, 4.4, 4.7 were redesigned
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Subsection "Limited Liability Companies" – Limited life span was deleted as a disadvantage of LLCs.
- » Boxes Seeking Sustainability and Spotlight on Small Business

## **Chapter 5 Entrepreneurship and Starting a Small Business**

### **Additions:**

- » Getting to Know Tristan Walker, founder of Walker and Company
- » Name that Company
- » Spotlight on Small Business: Student Startups
- » Steps to starting an online business was added to subsection "Online Businesses."
- » Career Exploration
- » Video Case: Cousins Maine Lobster

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » The Entrepreneur Readiness Questionnaire was replaced with a URL for an online Entrepreneurial Potential Self-Assessment tool.
- » Subsection "Entrepreneurship within Firms" was moved up to follow the subsection "Entrepreneurial Teams."
- » Figure 5.1 was revised and redesigned.
- » Subsection "Web-Based Businesses" was revised and retitled "Online Businesses."
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Entrepreneur Readiness Questionnaire
- » Key term affiliate marketing
- » Video Case
- » Boxes Spotlight on Small Business, Adapting to Change, Reaching Beyond our Borders

## **Chapter 6 Management and Leadership**

### **Additions:**

- » Getting to Know Michelle Freyre, President of U.S. Beauty at Johnson & Johnson
- » Name that Company
- » Adapting to Change: Will Strategy Robots Replace Managers?
- » Connecting Through Social Media: Want to Be a Social Media Manager?
- » Video Case: Rosetta Stone

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information.

- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Boxes Reaching Beyond Our Borders and Adapting to Change

## **Chapter 7 Structuring Organizations for Today's Challenges**

### **Additions:**

- » Getting to Know Michele Buck, CEO of Hershey
- » Name that Company
- » Adapting to Change: Going Bossless
- » Connecting Through Social Media: Breaking the Connection
- » Career Exploration

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Section "Everyone's Reorganizing" was retitled "Organizing for Success" and the introduction
- » was shortened.
- » Figure 8.4 was corrected (during the redesign process the cells in the figure had been mislabeled).
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Boxes Spotlight on Small Business and Adapting to Change
- » Taking It to the Net
- » Video Case

## **Chapter 8 Production and Operations Management**

### **Additions:**

- » Name that Company
- » Reaching Beyond Our Borders: Creating Skilled Workers with German-Style Apprenticeships
- » Subsection “3D Printing”
- » Adapting to Change “Vast Possibilities of 3D Printing”
- » Career Exploration
- » Putting Principles to Work

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Getting to Know Shahid Khan, CEO of Flex-N-Gate, was revised and updated.
- » The opening pages of the section “Manufacturing and Services in Perspective” were rewritten to highlight the current state of U.S. manufacturing and the role technology has, and continues to have, in the evolution of manufacturing in the U.S.
- » Subsection “Manufacturers and Service Organizations Become More Competitive” was rewritten and shortened.
- » Subsection “Lean Manufacturing” was shortened.
- » Subsection “Robotics” was enhanced with discussion of robotics in the service sector.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Boxes Seeking Sustainability, Reaching Beyond Our Borders and Spotlight on Small Business

## **Chapter 9 Motivation Employees**

### **Additions:**

- » Getting to Know Rose Marcario, CEO of Patagonia
- » Name that Company
- » Adapting to Change: Employee Engagement’s Mood Ring
- » Connecting Through Social Media: Cheers for Peers!
- » Video Case: Taco Bell

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Section “Personalizing Motivation” was enhanced with additional discussion of Gen Zers.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Section “Reinforcing Employee Performance: Reinforcement Theory”
- » Figure 10.7 Reinforcement Theory
- » Boxes Adapting to Change, Adapting to Change, Spotlight on Small Business, and Reaching Beyond Our Borders



## **Chapter 10 Human Resource Management**

**Integration:** Chapter 11 Human Resource Management and Chapter 12 Unions and Employee- Management Issues were condensed and combined.

### **Additions:**

- » Getting to Know Hamdi Ulukaya, founder and CEO of Chobani
- » Name that Company
- » Connecting through Social Media: Need a Job? • Connecting through Social Media: Let's Face It
- » Spotlight on Business: The Spark That Started the Labor Movement.
- » The section discussing labor unions was condensed and moved from the first edition Chapter 12. The following material was deleted:
  - Subsection "The History of Organized Labor"
  - Subsection "Public Sector Union Membership"
  - Figure 12.1 Major Legislation Affecting Labor-Management Relations
  - Figure 12.2 Steps in Union-Organizing and Decertification Campaigns
  - Figure 12.6 "The Grievance Resolution Process"
  - Subsection "The Future of Unions and Labor-Management Relations"
- » Career Exploration
- » Video Case: Hilton

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Subsection "The Human Resource Challenge" the list of human resources challenges and opportunities was revised to include the uncertain global politics and increased attention on hiring immigrants, managing a multigenerational workforce, technology (such as talent networks, crowdsourcing, and internal social networks), and implementing human resource information systems.
- » Section "Laws Affecting Human Resource Management" was enhanced with a discussion of the EEOC's ban-the-box rule.
- » Sexual Harassment coverage was moved from the deleted Unions & Employee-Management Issues chapter to Section "Laws Affecting Human Resource Management"
- » Figure 11.3 was redesigned.
- » Section "Determining a Firm's Human Resource Needs" was enhanced with a discussion of HRIS.
- » Section "Hiring Contingent Workers" was enhanced with a discussion of the gig economy.
- » Subsection "Pay Systems" was enhanced with a discussion of market-base pay structures.
- » Subsection "Losing Valued Employees" was enhanced with a discussion of offboarding.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Subsection "Diversity in Management Development"
- » Subsection "Compensating Teams"
- » Figure 11.7 A Flextime Chart
- » Figure 11.9 How to Avoid Wrongful Discharge Lawsuits
- » Boxes Spotlight on Small Business and Adapting to Change

## **Chapter 11 Marketing: Helping Buyers Buy**

### **Additions:**

- » Getting to Know Michelle Phan, founder of Ipsy
- » Name that Company
- » Connecting through Social Media: Snapping Up a Customer Base
- » Spotlight on Small Business: Creating Mass Appeal for a Custom Product
- » Adapting to Change: Building Relationships by Building Subscribers
- » Career Exploration
- » Video Case: National Park Service

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » The extended example Very Vegetarian featured throughout the text was changed to Harvest Gold, a healthy, fresh fast-food restaurant.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Boxes Seeking Sustainability, Reaching Beyond Our Borders, and Adapting to Change

## **Chapter 12 Managing the Marketing Mix: The 4 Ps**

### **Additions:**

- » Getting to Know Tony McGee, President and CEO of HNM Global Logistics
- » Name that Company
- » Subsection “Online Advertising”
- » Subsection “Social Media Advertising”
- » Subsection “Social Media and Promotion”
- » Connecting Through Social Media: How Social Media Move TV Ratings
- » Making Ethical Decisions: Natural Goods Really From Nature?
- » Adapting to Change: Outdoor “Eyes” Are Pulling You In
- » Career Exploration
- » Video Case: Tuft and Needle Revisions:
- » Statistical data and examples throughout the chapter were updated to reflect current information. In addition:
- » Subsection “Vending Machines, Kiosks, and Carts” was expanded to include PopUps.
- » The Reaching Beyond Our Borders box “Playing the Name Game” was revised to feature Lululemon rather than Haagen-Dazs.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work
- » Putting Principles to Work exercise was revised by asking students to use shopbots to price the purchase and delivery of Beats headsets online versus purchasing in local store.

## **Chapter 13 Using Technology to Manage Information**

**Reorganization:** Bonus Chapter B (previously available online) was promoted to the main text. In addition, the following changes were made:

### **Additions:**

- » Getting to Know Ben Fried, CIO of Google
- » Name that Company
- » Subsection Using Information from Social Media
- » Subsection Ransomware
- » Adapting to Change box: Preparing for a Future Shaped by Artificial Intelligence.
- » Making Ethical Decisions box: Struggling with Increasingly Toxic Social Networks
- » Career Exploration
- » Video Case: Worldwide Technologies

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Subsection “Big Data and Data Analytics” was enhanced with the addition of a discussion of how data analytics can reflect the biases of its human creators.
- » Subsection “Social Media and Web 2.0” was enhanced with the addition of discussions of social media managers and search engine optimization.
- » Subsection “Semantic Web” was replaced with subsection “Artificial Intelligence.”
- » Subsection Hackers was enhanced with discussion of the Yahoo, Equifax, and Marriott breaches, the increased risk of identity theft, and the effects of ID-theft on employees and employers.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Subsection organizing E-Mail and Electronic Files
- » Figure B.3

## **Chapter 14 Understanding Accounting and Financial Information**

### **Additions:**

- » Getting to Know Shelly Sun, CEO of BrightStar Care
- » Name that Company
- » Making Ethical Decisions: When You Are Judge and Jury!
- » Adapting to Change: Accounting CSI
- » Career Exploration

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Section Accounting Disciplines was moved from the beginning of the chapter to the end. In addition, the subsection Financial Accounting was moved before the subsection Managerial Accounting
- » The description of GAAP was moved from the subsection Financial Accounting to the subsection What is Accounting?
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Boxes Making Ethical Decisions and Adapting to Change

## **Chapter 15 Financial Management What's New in this Edition?**

**Integration:** Chapter 16 Financial Management and Chapter 17 Using Securities Markets for Financing and Investing Opportunities were condensed and combined. In addition, the following changes were made.

### **Additions:**

- » Getting to Know Dhivya Suryadevara, Vice President of Corporate Finance and CFO of General Motors
- » Name that Company
- » Adapting to Change: Financing Just a Click Away
- » Spotlight on Small Business: An Angel on Your Start-ups Shoulder
- » Career Exploration

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Putting Principles to Work (formerly Taking it to the Net) question 3 was replaced.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Coverage of promissory notes in subsection "Trade Credit."
- » Coverage of pledging accounts receivable and commercial finance banks in subsection "Different Forms of Short-Term Loans."
- » Subsection "Commercial Paper"
- » Subsection "Lessons Learned from the Financial Crisis and Great Recession."
- » (This was redundant with the discussion in the Money & Banking chapter.)
- » Section "Stock Exchanges"
- » Subsection "Issuing Shares of Common Stock"
- » Subsection "Issuing Shares of Preferred Stock"
- » Subsection "Different Classes of Bonds"
- » Subsection "Special Bond Features"
- » Section "How Investors Buy Securities" (This material was moved to the online Bonus Chapter "Managing Personal Finances and Investing.")
- » Figures 12.1-12.10

## **Chapter 16 Money, Financial Institutions, and the Federal Reserve**

### **Additions:**

- » Getting to Know Jerome (Jay) Powell, Chairman of the Federal Reserve
- » Name that Company
- » Adapting to Change: Say Goodbye to Ben Franklin
- » Making Ethical Decisions: An Open and Shut Option
- » Spotlight on Small Business: Becoming Your Best Friend in Banking
- » Reaching Beyond Our Borders: New Day, New Issues Across the Globe
- » Career Exploration
- » Putting Principles to Work

### **Revisions:**

- » Statistical data and examples throughout the chapter were updated to reflect current information. In addition:
- » Subsection “What is Money?” was enhanced with a discussion of electronic money.
- » Subsection “What is the Money Supply?” was condensed and the meaning of quantitative easing was clarified.
- » Subsection “Services to Borrowers” was updated with additional discussion of mobile banking.
- » Section “The Banking Crisis and How the Government Protects Your Money” was revised with an updated discussion of the causes and effects of the banking crisis.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Boxes Adapting to Change, Making Ethical Decisions, Spotlight on Small Business

## **Bonus Chapter A Working within the Legal Environment**

### **Additions:**

- » Getting to Know Alanna Rutherford, attorney
- » Name that Company
- » Career Exploration

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information.

- » Section “Tax Laws” was enhanced with a discussion of the 2018 Supreme Court decision opening the door to Internet sales tax.
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

### **Deletions:**

- » Name That Company
- » Figure A.7

## **Chapter B Managing Risk**

### **Additions:**

- » Getting to Know Olza “Tony” Nicely, CEO of Geico
- » Name that Company
- » Career Exploration Revisions:
- » Statistical data and examples throughout the chapter were updated to reflect current information.  
In addition:
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work

## **Chapter C Managing Personal Finance & Investing**

### **Additions:**

- » Getting to Know Alexa von Tobel, founder and CEO of LearnVest
- » Section “Growing Your Wealth Through Investing” (This material was moved here from the Securities chapter.)
- » Name that Company
- » Career Exploration

### **Revisions:**

Statistical data and examples throughout the chapter were updated to reflect current information. In addition:

- » Subsection “Real Estate: Historically, a Relatively Secure Investment” was revised significantly to emphasize that the value of a home as an investment depends on multiple factors.
- » Subsection “Tax Deductions and Home Ownership” was updated to include the 2018 tax deduction changes.
- » Subsection “Individual Retirement Plans” was enhanced with a discussion of SEP IRAs for self-employed individuals.
- » Subsection “Keogh Plans” was updated with the more current name for these plans, “Qualified Plans.”
- » EOC exercises were renamed Developing Career Skills and Putting Principles to Work.





# Asset Alignment with Bloom's Taxonomy

## Connect Introduction to Business

### We Take Students Higher

As a learning science company, we create content that supports higher order thinking skills. Within McGraw-Hill Connect, we tag content according to Blooms, difficulty, AACSB, learning objective and more! This allows you to filter, search, assign and report on the assessments you want to assign.

The chart below shows a few of the key assignable, digital assets available for Connect Introduction to Business aligned with Bloom's Taxonomy. Take your students higher by assigning a variety of application exercises, moving them from simple memorization to concept application.

	SmartBook® 2.0	iSeeit! Videos	Click and Drags	Video Cases/ Case Analyses	Manager's Hot Seat Videos	ABAs/ Role-Playing Sims	Business Plan Prep Activities	Writing Assignment Plus
Higher Order Thinking Skills	CREATE						✓	✓
	EVALUATE					✓	✓	✓
	ANALYZE			✓	✓	✓	✓	✓
	APPLY		✓	✓	✓	✓	✓	✓
	UNDERSTAND	✓	✓	✓	✓	✓	✓	✓
Lower Order Thinking Skills	REMEMBER	✓	✓	✓	✓	✓	✓	✓

## **SmartBook 2.0**

Adaptively aids students to study more efficiently by highlighting where in the chapter to focus, asking review questions and pointing them to resources until they understand.

## **iSeeit! Videos**

Short, contemporary videos provide engaging, animated introductions to key course concepts. Perfect for launching lectures and assigning as pre- or post-lecture.

## **Video Cases & Case Analyses**

Mini-cases and scenarios of real-world firms accompanied by questions that help students analyze and apply core business concepts.

## **Click and Drags**

Click and Drag exercises challenge students to apply business concepts to a variety of scenarios critically thinking about concepts in the real world.

## **Manager's Hot Seat Videos**

These videos put students in the manager's hot seat where they will use their critical thinking skills to apply the concepts they've learned to real managerial challenges.

## **ABAs/Role-Playing Sims**

These highly interactive, automatically graded exercises provide students a safe space to practice using problem-solving skills to apply their knowledge to realistic scenarios. Each scenario addresses key concepts and skills that students must use to work through and solve course-specific problems, resulting in improved critical thinking and relevant workplace skills.

## **Business Plan Prep Activities**

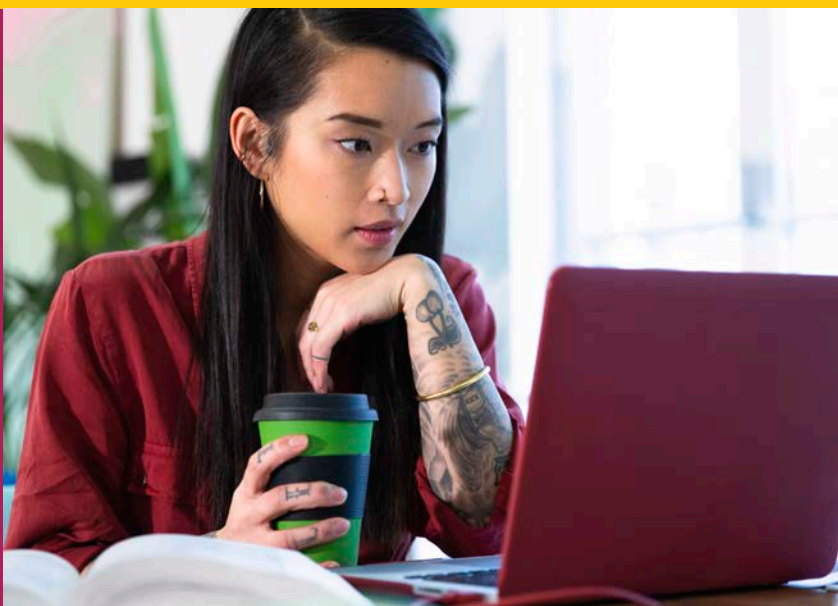
These exercises use guided activities and examples to help students understand and differentiate the various elements of a business plan.

## **Writing Assignment Plus**

McGraw-Hill's Writing Assignment Plus delivers a learning experience that helps students improve their written communication skills and conceptual understanding. Faculty can assign, monitor, grade, and provide feedback on writing projects efficiently. Built-in grammar and writing review helps students improve writing quality while an originality check helps students correct potential plagiarism before submission—helping students practice and develop important workplace skills of writing and critical thinking.

## Introduction to Business

### Application- Based Activities



**Expanded Offering for Fall 2020 Classes!** Bridge the gap between classroom theory and real-life with **11 Application-Based Activities** that engage students and put them in the decision-making seat. Students practice their critical thinking and problem solving skills as they immerse themselves in real-life challenges that require the application of course concepts, and see the implications of their decisions as they go. Each simulation is designed as a 15 minute experience, unless students eagerly replay for a better outcome.

**Role-playing application-based activities will be available for Fall 2020 classes:**

- Accounting and Financial Ratios: Expanding the Vintage Lily
- Culture and Trade: The International Landscape
- Economics: Acing the Interview
- Exploring Ethics: Labor Practices in Vietnam
- Finance and Banking: ButterStone Campground
- International Trade: Expanding Dr. Tasty Donuts
- Operational Decisions: Bump Up Your Bumper
- Organizational Structure: Accessing Authentic Brew
- Securities and Investing: Making Money to Move Out
- The 4 Ps of Marketing: Frondescence Food Truck

See next page for more information.

## **Accounting and Financial Ratios: Expanding the Vintage Lily**

Use accounting knowledge of financial statements and financial ratios to help the Vintage Lily expand into a brick-and-mortar store.

## **Culture and Trade: The International Landscape**

Assume the role of an employee at Be-wiser, a health and beauty company that is hosting its annual manager's meeting in New York City. Interact with international colleagues and contribute to team discussions about trade and global expansion.

## **Economics: Acing the Interview**

Interview with two employees of the United States Department of Labor for a position as an economic analyst. Impress the interviewers by correctly answering questions about economic systems, the business cycle, and monetary and fiscal policy. Analyze economic data to determine the best answer to some of the interviewers' questions.

## **Entrepreneurship: What's Your Bright Idea?**

Alongside a team of friends and former professors, become an entrepreneur. Determine which type of business to start, the appropriate form of ownership, and how to finance the business.

## **Exploring Ethics: Labor Practices in Vietnam**

On a trip to Vietnam to visit a supplier, use ethical decision making to determine whether the firm is operating within legal and ethical frameworks. To uncover clues, strive to be an ethical decision-maker with a high level of professionalism.

## **Finance and Banking: ButterStone Campground**

Try to start a well-known campground franchise, ButterStone Campgrounds, by getting the necessary funding. Differentiate among types of forecasting and create a financing plan to impress the franchisor.

## **International Trade: Expanding Dr. Tasty Donuts**

Use your knowledge of global trade to help sell the Dr. Tasty, a delicious ice cream-filled donut, in Asia.

## **Operational Decisions: Bump Up Your Bumper**

Make operational decisions to effectively and efficiently start an aftermarket automobile accessory business from inherited equipment. Alongside Gary and Asha, select the best location, facility layout, inventory system, and quality control certification for Bump Up Your Bumper.

## **Organizational Structure: Assessing Authentic Brew**

Join the Authentic Brew team to determine the best organizational structure to support continued growth. Correlate employee attitudes to organizational design issues and justify your decisions. Use professional communication along the way to impress your colleagues.

## **Securities and Investing: Making Money to Move Out**

Use your knowledge of securities and investing to grow your money, so you can move into a nice apartment after college.

## **The 4 Ps of Marketing: Frondescence Food Truck**

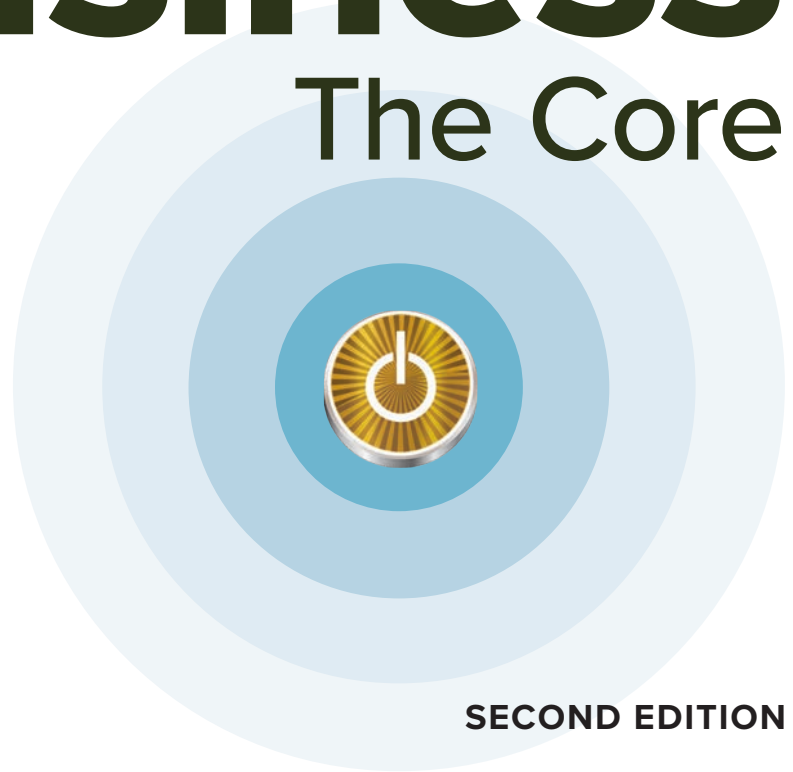
Jump into an internship with a food truck entrepreneur to make critical marketing decisions. Identify which of the 4 Ps each decision affects and guide the marketing strategy to maximize sales.



UNDERSTANDING

# Business

The Core



SECOND EDITION

**William G. Nickels**

UNIVERSITY OF MARYLAND

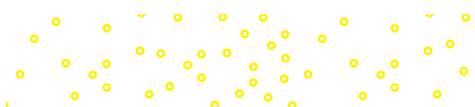
**James M. McHugh**

ST. LOUIS COMMUNITY COLLEGE AT FOREST PARK

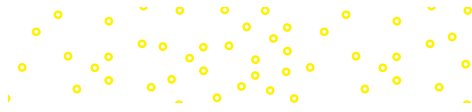
**Susan M. McHugh**

APPLIED LEARNING SYSTEMS

**Mc  
Graw  
Hill**







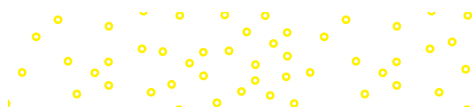
## DEDICATION

To our families—Marsha, Joel, Carrie, Claire, Casey, Dan, Molly, Michael, Lindsay, Patrick, and Quinn. Thank you for making everything worth doing and giving us the support to do it well!

### ***AND***

To the team that made this edition possible, especially the instructors and students who gave us such valuable guidance as we developed the text and package.

---



# ABOUT THE AUTHORS



**Bill Nickels** is emeritus professor of business at the University of Maryland, College Park. He has over 30 years' experience teaching graduate and undergraduate business courses, including introduction to business, marketing, and promotion. He has won the Outstanding Teacher on Campus Award four times and was nominated for the award many other times. He received his MBA degree from Western Reserve University and his PhD from Ohio State University. Bill has written a marketing communications text and two marketing principles texts in addition to many articles in business publications. He has taught many seminars to businesspeople on subjects such as power communications, marketing, nonbusiness marketing, and stress and life management. His son, Joel, is a professor of English at the University of Miami (Florida).



**Jim McHugh** holds an MBA degree from Lindenwood University and has had broad experience in education, business, and government. As chair of the Business and Economics Department of St. Louis Community College–Forest Park, Jim coordinated and directed the development of the business curriculum. In addition to teaching several sections of Introduction to Business each semester for nearly 30 years, Jim taught in the marketing and management areas at both the undergraduate and graduate levels. Jim enjoys conducting business seminars and consulting with small and large businesses. He is actively involved in the public-service sector and served as chief of staff to the St. Louis County Executive.



**Susan McHugh** is a learning specialist with extensive training and experience in adult learning and curriculum development. She holds an MEd degree from the University of Missouri and completed her course work for a PhD in education administration with a specialty in adult learning theory. As a professional curriculum developer, she has directed numerous curriculum projects and educator training programs. She has worked in the public and private sectors as a consultant in training and employee development. While Jim and Susan treasure their participation in writing projects, their greatest accomplishment is their collaboration on their three children. Casey is carrying on the family's teaching tradition as an adjunct social work professor at Washington University and the founder of an incubator to help therapists start their own practices. Molly and Michael are carrying on the family writing tradition by contributing to the development of this text and several supplementary materials.

# THE GOLD ★★★★★ STANDARD

## Preparing Future-Ready Learners

Congratulations. You've made an excellent selection. Welcome to the preeminent teaching and learning experience ever created for Introduction to Business classes.

Our experienced and diverse authors and long-tenured editorial team have created a product that meets the needs of nearly all classrooms, no matter the size, teaching modality, or learning objectives. The content is unmatched in depth, breadth, currency, and relevancy, and is presented in an extremely readable format for students with all learning styles. A wealth of technology solutions engages students, enriches learning, furthers understanding, and simplifies instructors' assessment processes. Course supplements tightly align with chapter concepts and enhance retention, making instructors of all experience levels Grade-A rock stars. Unparalleled support from our digital faculty consultants helps ensure you and your students benefit from the full experience of what is now the gold standard in Introduction to Business classes. Nickels/McHugh/McHugh, *Understanding Business: The Core*, 2e does more than teach—it prepares students to create real impact on the world.

### 1. The Gold Standard in Relevancy and Currency

Real-world case studies—across nearly all industries and company sizes—ensure your students are apprised of the most current challenges businesspeople face today. From Brexit and ransomware to 3D printing and robo-advisors, you have access to numerous relevant samples that tie directly into chapter lessons. Plus with the option to take advantage of the ***From the News to the Classroom* blog**, you can enrich the learning experience with content that is updated multiple times each week and includes abstracts of relevant news stories, videos tied to chapter topics, and critical thinking questions that streamline your prep time and help create an ultra-current course.

### 2. The Gold Standard in Results-Driven Technology

Interactive learning tools increase teaching effectiveness and learning efficiency by facilitating a stronger connection between the course material and the modern student.

**Where the Science of Learning Meets the Art of Teaching** McGraw-Hill *Connect* is the leading online assignment and assessment solution that connects students with the tools and resources they need to achieve success. It also allows instructors to quickly and easily choose the content and assignments that will best emphasize the learning objectives they prefer to cover. The result is a customized course, rich with engaging presentations and activities that prepare students for the business world.

**The First and Only Adaptive Reading Experience** *SmartBook 2.0* creates a dynamic reading experience and personalizes content for each student, helping students master and retain foundational concepts. Tracking each student's progress, it automatically assesses comprehension levels and delivers the content

required to reinforce topics needing more attention. This continuously adaptive learning path is proven to accelerate learning and strengthen memory recall, all while providing instructors a turnkey tool that ensures students stay on track.

**Bridging the Gap between Concept and Application** Having knowledge is the first step—and understanding how to apply that knowledge is what determines a person’s success in the business world. That’s why we provide an array of application exercises that are as educational as they are engaging. *Click-and-Drag* exercises reinforce key models and processes. *Video Cases* allow students to observe and analyze key concepts as they are utilized by companies and organizations they know and recognize. *Case Analyses* expose students to real-world scenarios and engage their critical-thinking and analysis skills. New to this edition, 15-minute *Application-Based Activities* put students in the role of business professionals, allowing them to make decisions and learn from the results.

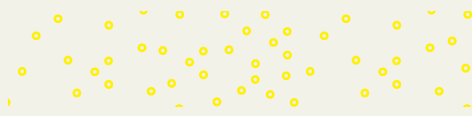
### 3. The Gold Standard in Teaching Resources

Whether it’s your first or fortieth year teaching, you can benefit from a wealth of assessments and class-tested resources that simplify your evaluation process and enrich the learning experience.

Assessment Tools:

- **NEW SmartBook 2.0** personalizes learning to individual student needs, continually adapting to pinpoint knowledge gaps and focus learning on topics that need the most attention. With SmartBook 2.0, learning is more productive and the guesswork is taken out of what to study in a no-fail environment. As a result, students are better prepared for class and coursework.
- **NEW Writing Assignment Premium** evaluates, scores, and gives feedback on student responses to provided prompts.
- **NEW Application-Based Activities** are highly interactive, automatically graded exercises that immerse students in a business environment, analyze the situation, and apply their knowledge to a real-world scenario.
- **Business Plan Prep Activities** guide students in creating a basic business plan.
- **Test Bank** that is the largest and most accurate collection of questions on the market, including over 300 questions per chapter, makes testing student knowledge a simple and efficient process.

	SmartBook 2.0	iSeeIt! Videos	Click and Drags	Video Cases/ Case Analyses	Manager's Hot Seat Videos	Application-Based Activities	Business Plan Prep Activities	Writing Assignment Premium
Higher Order Thinking Skills								
CREATE							✓	✓
EVALUATE						✓	✓	✓
ANALYZE				✓	✓	✓	✓	✓
APPLY			✓	✓	✓	✓	✓	✓
UNDERSTAND	✓	✓	✓	✓	✓	✓	✓	✓
REMEMBER	✓	✓	✓	✓	✓	✓	✓	✓
Lower Order Thinking Skills								



- **Chapter Interactive Assignments** challenge students to demonstrate their knowledge of key concepts and terms by applying them to a variety of business-world scenarios.
- **Video assignments** help explain difficult concepts and show business concepts in action.

Additional Resources:

- **Teacher's resource manual** includes tools to improve retention and engagement, while helping save the instructor's time.
- **From the News to the Classroom blog** is updated multiple times each week, featuring abstracts of relevant news stories, video tied to chapter topics, and critical-thinking questions that streamline your prep time and help create an ultra-current course.
- **PowerPoint presentations** include integrated polling questions that improve student engagement.
- **Video library** with Video Teaching Guide includes:
  - **Company case videos** produced specifically to expound on chapter learning objectives via real-world business situations across a broad range of industries, sizes, and geographic locations, allowing students to contextualize the chapter's content.
  - **Manager's Hot Seat videos** offer short cases that show real business professionals confronting a variety of workplace challenges.
  - **iSeeit! animated video explanations** clarify some of the most important topics and can be accessed within the e-book.
  - **Current video clips** on the *From the News to the Classroom* blog tie to chapter topics and keep your classroom current.

## 4. The Gold Standard in Support, Service, and Solutions

We want you to get the most out of our products, and we do everything possible to help provide your students an exceptional learning experience. From the first to the last day of the semester, we support you with:

- Learning technology representatives
- Digital faculty consultants
- Student ambassadors
- Implementation consultants
- Technical support
- Integration with your learning management system
- Content your way/customizable content/a robust library of cross-disciplinary content
- Student progress-tracking
- Accreditation and assurance of learning ready

Our team of digital faculty consultants and extensive toolbox of support programs ensure you receive the full value of all this product has to offer.

## The Bottom Line

The business world is constantly changing, and your classroom needs to keep up. With Nickels/McHugh/McHugh, *Understanding Business: The Core*, 2nd Edition, both you and your students can experience *the Gold Standard* in Introduction to Business classes.





## Changes to the New Edition

**Fewer Chapters!** You asked for it—you got it. Many reviewers asked us to reduce the number of chapters in the text and to include a chapter on using technology (particularly social media). *Understanding Business: The Core*, 2e is now a trim 16 chapters. Here's how we did it:

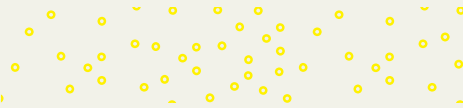
- Chapter 1 (Taking Risks and Making Profits within the Dynamic Business Environment) and Chapter 2 (Understanding Economics) were condensed and combined to create **Chapter 1 Exploring the Business Environment and Economics**. Note: The coverage of current trends was deleted since it is covered in other chapters.
- Chapter 11 (Human Resource Management: Finding and Keeping the Best Employees) and Chapter 12 (Dealing with Employee–Management Issues) were condensed and combined to create **Chapter 10 Human Resource Management: Finding and Keeping the Best Employees**.
- Chapter 16 (Financial Management) was combined with Chapter 17 (Using Securities Markets for Financing and Investing Opportunities) to create **Chapter 15 Financial Management**. Note: This revised chapter retains the material about selling stocks and bonds to raise capital. The content about investing in stocks and bonds was moved to Bonus Chapter C Managing Personal Finances and Investing.
- Bonus Chapter B (Using Technology to Manage Business) was expanded and promoted to the main text as **Chapter 13 Using Technology to Manage Information**.
- **Bonus Chapter C Managing Personal Finance and Investing** was expanded to include a condensed version of the content regarding investing in stocks and bonds that was moved from the former Securities Markets chapter.

**New!** You also asked us to include more information about careers in business. We added a section to the end-of-chapter material, **Career Exploration**, which identifies potential career opportunities.

**Current!** Users of *Understanding Business* have always appreciated the currency of the material and the large number of examples from companies of all sizes and industries (e.g., service, manufacturing, nonprofit, and profit) in the United States and around the world. Accordingly, the latest business practices and other developments affecting business include:

- Brexit
- Gig economy
- Social media advertising
- Social networking
- Benefit corporations
- Circular economy
- Products as services
- Human resource information systems (HRISs)
- Market-based pay structure
- On-call scheduling
- Continuous performance reviews
- Bullying in the workplace
- Ban-the-box job application and initial interview rule
- Holacracy
- Drones



- 
- 3D printing and additive manufacturing
  - Wells Fargo and Volkswagen scandals
  - Supreme Court decision on insider trading
  - Robo-advisors
  - Ransomware
  - And much, much more

## McGraw-Hill Customer Experience Group Contact Information

At McGraw-Hill Education, we understand that getting the most from new technology can be challenging. That's why our services don't stop after you purchase our products. You can e-mail our Product Specialists 24 hours a day to get product training online. Or you can search our knowledge bank of Frequently Asked Questions on our support website. For Customer Support, call **800-331-5094** or visit [mhhe.com/support](http://mhhe.com/support). One of our Technical Support Analysts will be able to assist you in a timely fashion.



# ACKNOWLEDGMENTS

Many hands helped build this project. Executive portfolio managers Peter Jurmu and Meredith Fossel led the talented team at McGraw-Hill Education. We appreciate his dedication to the success of the project and his responsiveness to the demands of the market. Anne Leung served as our senior product developer and kept everyone on task and on schedule. Molly and Michael McHugh helped revise the text and contributed many of the new boxes and profiles. Matt Diamond created the fresh, open interior design and cover. Traci Vaske carried out the extensive research for photos that was necessary to effectively reflect the concepts presented in the text. As always, lead project manager, Christine Vaughan, did a splendid job of keeping the production of the text on schedule. Bruce Gin expertly supervised Connect production.

Many dedicated educators and content experts made extraordinary contributions to the quality and utility of this teaching and learning package. For this edition, Diana Murphy and her team at Editors Inc. did a superb job of creating a useful and current Teacher's Resource Manual. Molly McHugh updated the Test Bank and contributed to the revised Teacher's Resource Manual. We also recognize the efforts of Stacy Martin at Southwestern Illinois College, who contributed to the creation of Connect materials. We are grateful to our SmartBook team: in particular to Judy Bulin at Monroe Community College, who tirelessly worked to review and perfect the probes and feedback and respond to student queries, along with Kathleen Borbee. Thank you to Kelly

Luchtman and her team at Lightfellow for the fabulous new videos they produced. Thank you to the Digital Faculty Consultants who have helped train and support so many of their fellow instructors in the Introduction to Business course, as well as assist them in successfully implementing Connect into their courses: Cathleen Cogdill, *Northern Virginia Community College*; Chris Finnin, *Drexel University*; Stacy Martin, *Southwestern Illinois College*; Allison McGullion, *KCTCS West Kentucky Community and Tech College*; Tim Rogers, *Ozarks Technical Community College*; Steven Sedky, *Santa Monica College*; and Gail Zwart, *Riverside City College*. We would like to give special thanks to Tim Rogers for his dedication to this project, including the hard work he did revising the student study guide.

Our outstanding marketing managers, Gabe Fedota and Nicole Young, and marketing director, Robin Lucas, were up to the challenge of guiding the text to continued market leadership. With the assistance of the market's finest sales professionals, they led to the success of the inaugural edition of *The Core*. We want to thank the many instructors who contributed to the development of *Understanding Business: The Core*, 2e.

## Reviewers

We would like to thank the following instructors for sharing with us their opinions, input, and advice—all of which contributed to the development of each edition.

For this edition we thank:  
David M. Baird,  
*Indiana University Southeast*  
Schuyler Banks, *Erie Community College*  
R. Dennis Bates, *Mesa Community College*  
Steve Dunphy, *Indiana University Northwest*  
Kalena Green, *Florida A&M University*  
Russell Johnson, *Utah Valley University*  
Jared A. Langkilde, *Mesa Community College*  
Terry R. Lowe, *Illinois State University*  
Mark Nygren, *Brigham Young University—Idaho*

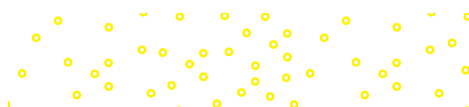
Jon Padfield, *Purdue University*  
Cynthia Quinly, *Crowder College*  
Michelle Roach, *Atlanta Technical College*  
Jim Russell, *Purdue University*  
Anna Sadovnikova, *South Dakota State University*  
Sarah Shepler, *Ivy Tech Community College*  
William Spangler, *Duquesne University*  
John Strifler, *University of Indianapolis*  
Ted Tedmon, *North Idaho College*  
Deric B. Williams II, *Wayne State University*

Raymond Wimer,  
*Syracuse University*  
Bruce Yuille, *Mid Michigan College*  
Joseph Zwiller, *Lake Michigan College*  
For previous editions we thank:  
Nikolas Adamou, *Borough of Manhattan Community College*  
Rebecca Adams, *Kansas State University*  
Cathy Adamson, *Southern Union State Community College*  
Ashraf Almurdaah, *Los Angeles City College*  
Gary Amundson, *Montana State University—Billings*  
Kenneth Anderson, *Borough of Manhattan Community College*



- |   |  |   |
|---|--|---|
| Kenneth Anderson, <i>Mott Community College</i>                 | Cathleen Behan, <i>Northern Virginia Community College</i>             | Nancy Carr, <i>Community College of Philadelphia</i>                          |
| Lydia Anderson, <i>Fresno City College</i>                      | Lori Bennett, <i>Moorpark College</i>                                  | Ron Cereola, <i>James Madison University</i>                                  |
| Narita Anderson, <i>University of Central Oklahoma</i>          | Robert Bennett, <i>Delaware County Community College</i>               | Bonnie Chavez, <i>Santa Barbara City College</i>                              |
| Roanne Angiello, <i>Bergen Community College</i>                | Ellen Benowitz, <i>Mercer Community College</i>                        | Susan Cisco, <i>Oakton Community College</i>                                  |
| Brenda T. Anthony, <i>Tallahassee Community College</i>         | Michael Bento, <i>Owens Community College</i>                          | Margaret (Meg) Clark, <i>Cincinnati State Technical and Community College</i> |
| Chi Anyansi-Archibong, <i>North Carolina A&amp;T University</i> | George H. Bernard, <i>Seminole State College of Florida</i>            | Savannah Clay, <i>Central Piedmont Community College</i>                      |
| Maria Aria, <i>Camden County College</i>                        | Patricia Bernson, <i>County College of Morris</i>                      | David Clifton, <i>Ivy Tech Community College of Indiana</i>                   |
| Michael Atchison, <i>University of Virginia—Charlottesville</i> | Harry V. Bernstein, <i>Essex County College, Newark, New Jersey</i>    | C. Cloud, <i>Phoenix College</i>  |
| Michael Aubry, <i>Cuyamaca College</i>                          | Marilyn Besich, <i>Montana State University—Great Falls</i>            | Paul Coakley, <i>Community College of Baltimore County</i>                    |
| Andrea Bailey, <i>Moraine Valley Community College</i>          | William Bettencourt, <i>Edmonds Community College</i>                  | Doug Cobbs, <i>J. S. Reynolds Community College</i>                           |
| Sandra Bailey, <i>Ivy Tech Community College of Indiana</i>     | Robert Blanchard, <i>Salem State College</i>                           | Cathleen H. Cogdill, <i>Northern Virginia Community College</i>               |
| Scott Bailey, <i>Troy University</i>                            | Mary Jo Boehms, <i>Jackson State Community College</i>                 | Brooks Colin, <i>University of New Orleans</i>                                |
| Wayne Ballantine, <i>Prairie View A&amp;M University</i>        | James Borden, <i>Villanova University</i>                              | Debbie Collins, <i>Anne Arundel Community College</i>                         |
| Frank Barber, <i>Cuyahoga Community College</i>                 | Michael Bravo, <i>Bentley College</i>                                  | Patrick Conroy, <i>Delgado Community College</i>                              |
| Ruby Barker, <i>Tarleton State University</i>                   | Dennis Brode, <i>Sinclair Community College</i>                        | Andrew Cook, <i>Limestone College</i>   |
| Rosalia (Lia) Barone, <i>Norwalk Community College</i>          | Kathy Broneck, <i>Pima Community College</i>                           | Bob Cox, <i>Salt Lake Community College</i>                                   |
| Barbara Barrett, <i>St. Louis Community College—Meramec</i>     | Harvey Bronstein, <i>Oakland Community College—Farmington Hills</i>    | Susan Cremins, <i>Westchester Community College</i>                           |
| Barry Barrett, <i>University of Wisconsin—Milwaukee</i>         | Deborah Brown, <i>North Carolina State University—Raleigh</i>          | Julie Cross, <i>Chippewa Valley Tech College</i>                              |
| Richard Bartlett, <i>Columbus State Community College</i>       | Aaron A. Buchko, <i>Bradley University</i>                             | Geoffrey Crosslin, <i>Kalamazoo Valley Community College</i>                  |
| Denise Barton, <i>Wake Technical Community College</i>          | Jerri Buiting, <i>Baker College—Flint</i>                              | Douglas Crowe, <i>Bradley University</i>                                      |
| Lorraine Bassette, <i>Prince George's Community College</i>     | Laura Bulas, <i>Central Community College—Hastings</i>                 | James Darling, <i>Central New Mexico Community College</i>                    |
| Robb Bay, <i>College of Southern Nevada—West Charleston</i>     | Barry Bunn, <i>Valencia Community College—West Campus</i>              | John David, <i>Stark State College of Technology</i>                          |
| Jim Beard, <i>University of Arkansas—Fort Smith</i>             | Bill Burton, <i>Indiana Wesleyan University</i>                        | Peter Dawson, <i>Collin County Community College</i>                          |
| Amy Beattie, <i>Champlain College</i>                           | Paul Callahan, <i>Cincinnati State Technical and Community College</i> | Joseph Defilippe, <i>Suffolk County Community College—Brentwood</i>           |
| Charles Beavin, <i>Miami Dade College North</i>                 | William Candley, <i>LeMoyne-Owen College</i>                           | Tim DeGroot, <i>Midwestern State University</i>                               |
| Charles Beem, <i>Bucks County Community College</i>             |  | Len Denault, <i>Bentley College</i>   |

- 
- |  |  |  |
|--|--|--|
| Frances Depaul, <i>Westmoreland County Community College</i> | Alan Friedenthal, <i>Kingsborough Community College</i>            | Steve Hester, <i>Southwest Tennessee Community College</i>             |
| Donna Devault, <i>Fayetteville Tech Community College</i>    | MaryBeth Furst, <i>Howard Community College</i>                    | William Hill, <i>Mississippi State University</i>                      |
| Sharon Dexter, <i>Southeast Community College—Beatrice</i>   | Charles Gaiser, <i>Brunswick Community College</i>                 | Nathan Himelstein, <i>Essex County College</i>                         |
| John Dilyard, <i>St. Francis College</i>                     | Wayne Gawlik, <i>Joliet Junior College</i>                         | Paula Hladik, <i>Waubonsee Community College</i>                       |
| Barbara Dinardo, <i>Owens Community College</i>              | Ashley Geisewite, <i>Southwest Tennessee Community College</i>     | David Ho, <i>Metropolitan Community College</i>                        |
| Bob Dodd, <i>College of Lake County</i>                      | Katie Ghahramani, <i>Johnson County Community College</i>          | Douglas Hobbs, <i>Sussex County Community College</i>                  |
| George Dollar, <i>St. Petersburg College</i>                 | Debora Gilliard, <i>Metropolitan State College—Denver</i>          | Linda Hoffman, <i>Ivy Tech Community College—Fort Wayne</i>            |
| Glenn Doolittle, <i>Santa Ana College</i>                    | Ross Gittell, <i>University of New Hampshire</i>                   | Maryanne Holcomb, <i>Antelope Valley College</i>                       |
| Ron Dougherty, <i>Ivy Tech Community College of Indiana</i>  | James Glover, <i>Community College of Baltimore County—Essex</i>   | Mary Carole Hollingsworth, <i>Georgia Perimeter College</i>            |
| Michael Drafke, <i>College of DuPage</i>                     | Constance Golden, <i>Lakeland Community College</i>                | Russell E. Holmes, <i>Des Moines Area Community College</i>            |
| Rosario (Bud) Drago, <i>Villanova University</i>             | Doug Greiner, <i>University of Toledo—Scott Park</i>               | Scott Homan, <i>Purdue University—West Lafayette</i>                   |
| Joseph Dutka, <i>Ivy Tech Community College of Indiana</i>   | Toby Grodner, <i>Union County College</i>                          | Stacy Horner, <i>Southwestern Michigan College</i>                     |
| Karen Eboch, <i>Bowling Green State University</i>           | John Guess, <i>Delgado Community College</i>                       | Dennis Hudson, <i>University of Tulsa</i>                              |
| Brenda Eichelberger, <i>Portland State University</i>        | Lisa E. Hadley, <i>Southwest Tennessee Community College</i>       | Jo Ann Hunter, <i>Community College Allegheny County in Pittsburgh</i> |
| Kelvin Elston, <i>Nashville State Tech Community College</i> | Peggy Hager, <i>Winthrop University</i>                            | Kimberly Hurns, <i>Washtenaw Community College</i>                     |
| Robert Ettl, <i>Stony Brook University</i>                   | Clark Hallpike, <i>Elgin Community College</i>                     | Victor Isbell, <i>University of Nevada—Las Vegas</i>                   |
| Nancy Evans, <i>Heartland Community College</i>              | Geri Harper, <i>Western Illinois University</i>                    | Deloris James, <i>University of Maryland—University College</i>        |
| Mary Ewanechko, <i>Monroe Community College</i>              | Britt Hastey, <i>Los Angeles City College</i>                      | Pam Janson, <i>Stark State College of Technology</i>                   |
| Michael Ewens, <i>Ventura College</i>                        | Frank Hatstat, <i>Bellevue Community College</i>                   | William Jedlicka, <i>Harper College</i>                                |
| Hyacinth Ezeka, <i>Coppin State University</i>               | Spedden Hause, <i>University of Maryland—University College</i>    | Carol Johnson, <i>University of Denver</i>                             |
| Bob Farris, <i>Mt. San Antonio College</i>                   | Karen Hawkins, <i>Miami-Dade College—Kendall</i>                   | Gwendolyn Jones, <i>University of Akron</i>                            |
| Karen Faulkner, <i>Long Beach City College</i>               | Travis Hayes, <i>Chattanooga State Technical Community College</i> | Kenneth Jones, <i>Ivy Tech Community College of Indiana</i>            |
| Gil Feiertag, <i>Columbus State Community College</i>        | Jack Heinsius, <i>Modesto Junior College</i>                       | Marilyn Jones, <i>Friends University</i>                               |
| Joseph Flack, <i>Washtenaw Community College</i>             | Charlane Held, <i>Onondaga Community College</i>                   | Michael Jones, <i>Delgado Community College</i>                        |
| Lucinda Fleming, <i>Orange County Community College</i>      | Nancy Hernandez, <i>Howard College</i>                             | Dmitriy Kalyagin, <i>Chabot College</i>                                |
| Jackie Flom, <i>University of Toledo</i>                     | James Hess, <i>Ivy Tech Community College of Indiana</i>           | Jack Kant, <i>San Juan College</i>                                     |
| Andrea Foster, <i>John Tyler Community College</i>           |  |  |
| Michael Foster, <i>Bentley College</i>                       |  |  |
| Leatrice Freer, <i>Pitt Community College</i>                |  |  |



- Janice M. Karlen, *La Guardia Community College*
- Jimmy Kelsey, *Seattle Central Community College*
- Robert Kemp, *University of Virginia—Charlottesville*
- David Kendall, *Fashion Institute of Technology*
- Kristine Kinard, *Shelton State Community College*
- Sandra King, *Minnesota State University—Mankato*
- Mary Beth Klinger, *College of Southern Maryland*
- Andrzej Kobylanski, *San Joaquin Delta College*
- Jon Krabill, *Columbus State Community College*
- John Kurnik, *Saint Petersburg College*
- Jeff LaVake, *University of Wisconsin—Oshkosh*
- Robert Lewis, *Davenport University*
- Byron Lilly, *DeAnza College*
- Beverly Loach, *Central Piedmont Community College*
- Boone Londrigan, *Mott Community College*
- Ladonna Love, *Fashion Institute of Technology*
- Ivan Lowe, *York Technical College*
- Yvonne Lucas, *Southwestern College*
- Robert Lupton, *Central Washington University*
- Megan Luttenton, *Grand Valley State University*
- Elaine Madden, *Anne Arundel Community College*
- Lawrence Maes, *Davenport University*
- Niki Maglaris, *Northwestern College*
- James Maniki, *Northwestern College*
- James W. Marco, *Wake Technical Community College*
- Martin Markowitz, *College of Charleston*
- Theresa Mastrianni, *Kingsborough Community College*
- Fred Mayerson, *Kingsborough Community College*
- Lee McCain, *Valencia College*
- Stacy McCaskill, *Rock Valley College*
- Vershun L. McClain, *Jackson State University*
- Gina McConoughey, *Illinois Central College*
- Patricia McDaniel, *Central Piedmont Community College*
- Pam McElligott, *St. Louis Community College—Meramec*
- Tom McFarland, *Mt. San Antonio College*
- Grace McLaughlin, *University of California, Irvine*
- Bill McPherson, *Indiana University of Pennsylvania*
- Michelle Meyer, *Joliet Junior College*
- Catherine Milburn, *University of Colorado—Denver*
- Ginger Moore, *York Technical College*
- Sandy Moore, *Ivy Tech Community College of Indiana*
- Jennifer Morton, *Ivy Tech Community College of Indiana*
- Peter Moutsatson, *Central Michigan University*
- Rachna Nagi-Condos, *American River College*
- Darrell Neron, *Pierce College*
- Mihai Nica, *University of Central Oklahoma*
- Charles Nichols, *Sullivan University*
- Frank Novakowski, *Davenport University*
- Paul Okello, *Tarrant County College*
- David Oliver, *Edison Community College*
- Faviana Olivier, *Bentley College*
- John Olivo, *Bloomsburg University of Pennsylvania*
- Teresa O'Neill, *International Institute of the Americas*
- Cathy Onion, *Western Illinois University*
- Susan Ontko, *Schoolcraft College*
- Joanne Orabone, *Community College of Rhode Island*
- Glenda Orosco, *Oklahoma State University Institute of Technology*
- Javier Osorio, *Seminole State College*
- Christopher Osuanah, *J. S. Reynolds Community College*
- Karen E. Overton, *Houston Community College Houston*
- Daniel Pacheco, *Kansas City Kansas Community College*
- Esther Page-Wood, *Western Michigan University*
- Lauren Paisley, *Genesee Community College*
- James Papademas, *Wright Community College, Chicago*
- John Pappalardo, *Keene State College*
- Ron Pardee, *Riverside Community College*
- Jack Partlow, *Northern Virginia Community College*
- Dyan Pease, *Sacramento City College*
- Jeff Pepper, *Chippewa Valley Tech College*
- Sheila Petcavage, *Cuyahoga Community College Western—Parma*
- Roy Pipitone, *Erie Community College*
- Lana Powell, *Valencia Community College—West Campus*
- Dan Powroznik, *Chesapeake College*
- Litsa Press, *College of Lake County*
- Sally Proffitt, *Tarrant County College—Northeast*
- Vincent Quan, *Fashion Institute of Technology*
- Michael Quinn, *James Madison University*





Anthony Racka, <i>Oakland Community College</i>	James Scott, <i>Central Michigan University</i>	Jon Tomlinson, <i>University of Northwestern Ohio</i>
Larry Ramos, <i>Miami-Dade Community College</i>	Janet Seggern, <i>Lehigh Carbon Community College</i>	Evelyn Thrasher, <i>University of Massachusetts–Dartmouth</i>
Greg Rapp, <i>Portland Community College–Sylvania</i>	Sashi Sekhar, <i>Purdue University–Calumet-Hammond</i>	Bob Trewartha, <i>Minnesota School of Business</i>
Robert Reese, <i>Illinois Valley Community College</i>	Pat Setlik, <i>Harper College</i>	Bob Urell, <i>Irvine Valley College</i>
David Reiman, <i>Monroe County Community College</i>	Swanee Sexton, <i>University of Tennessee–Knoxville</i>	Dan Vetter, <i>Central Michigan University</i>
Gloria Rembert, <i>Mitchell Community College</i>	Phyllis Shafer, <i>Brookdale Community College</i>	Andrea Vidrine, <i>Baton Rouge Community College</i>
Levi Richard, <i>Citrus College</i>	Richard Shortridge, <i>Glendale Community College</i>	Daniel Viveiros, <i>Johnson &amp; Wales University</i>
Clinton Richards, <i>University of Nevada–Las Vegas</i>	Denise M. Simmons, <i>Northern Virginia Community College</i>	Jean Volk, <i>Middlesex County College–Edison</i>
Patricia Richards, <i>Westchester Community College</i>	Rieann Spence-Gale, <i>Northern Virginia Community College</i>	William J. Wardrope, <i>University of Central Oklahoma</i>
Steve Riczo, <i>Kent State University</i>	Martin St. John, <i>Westmoreland County Community College</i>	Joann Warren, <i>Community College of Rhode Island–Warwick</i>
Susan Roach, <i>Georgia Southern University</i>	Clifford Stalter, <i>Chattanooga State Technical Community College</i>	David Washington, <i>North Carolina State University</i>
Sandra Robertson, <i>Thomas Nelson Community College</i>	Kurt Stanberry, <i>University of Houston–Downtown</i>	R. Patrick Wehner, <i>Everest University</i>
David Robinson, <i>University of California–Berkeley</i>	Desiree Stephens, <i>Norwalk Community College</i>	Sally Wells, <i>Columbia College</i>
Catherine Roche, <i>Rockland Community College</i>	Louise Stephens, <i>Volunteer State Community College</i>	Mildred Wilson, <i>Georgia Southern University</i>
Tim Rogers, <i>Ozark Technical College</i>	Edith Strickland, <i>Tallahassee Community College</i>	Karen Wisniewski, <i>County College of Morris</i>
Sam Rohr, <i>University of Northwestern Ohio</i>	David Stringer, <i>DeAnza College</i>	Greg Witkowski, <i>Northwestern College</i>
Pamela Rouse, <i>Butler University</i>	Ron Surmacz, <i>Duquesne University</i>	Colette Wolfson, <i>Ivy Tech Community College of Indiana</i>
Carol Rowey, <i>Community College of Rhode Island</i>	William Syvertsen, <i>Fresno City College</i>	Deborah Yancey, <i>Virginia Western Community College</i>
Jeri Rubin, <i>University of Alaska–Anchorage</i>	Scott Taylor, <i>Moberly Area Community College</i>	Mark Zarycki, <i>Hillsborough Community College, Tampa</i>
Storm Russo, <i>Valencia Community College</i>	Marguerite Teubner, <i>Nassau Community College</i>	Nancy E. Zimmerman, <i>The Community College of Baltimore County</i>
Mark Ryan, <i>Hawkeye Community College</i>	Rod Thirion, <i>Pikes Peak Community College</i>	Lisa Zingaro, <i>Oakton Community College</i>
Richard Sarkisian, <i>Camden County College</i>	Jim Thomas, <i>Indiana University Northwest</i>	Mark Zorn, <i>Butler County Community College</i>
Andy Saucedo, <i>Dona Ana Community College–Las Cruces</i>	Deborah Thompson, <i>Bentley College</i>	

This edition continues to be the market's gold standard due to the involvement of these committed instructors and students. We thank them all for their help, support, and friendship.

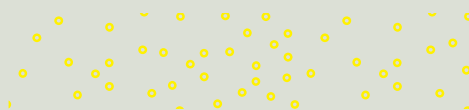
**Bill Nickels**

**Jim McHugh**

**Susan McHugh**



# connect®



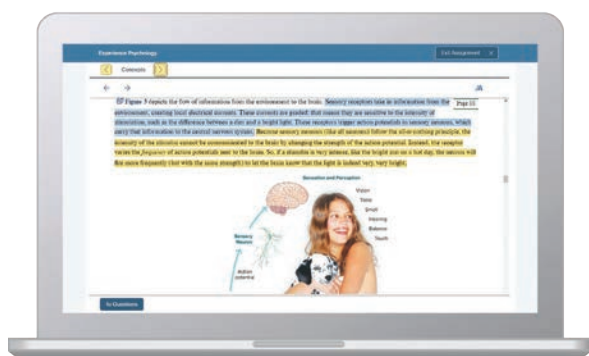
## FOR INSTRUCTORS

### You're in the driver's seat.

Want to build your own course? No problem. Prefer to use our turnkey, prebuilt course? Easy. Want to make changes throughout the semester? Sure. And you'll save time with Connect's auto-grading too.

# 65%

## Less Time Grading



Laptop: McGraw-Hill; Woman/dog: George Doyle/Getty Images

### They'll thank you for it.

Adaptive study resources like SmartBook® 2.0 help your students be better prepared in less time. You can transform your class time from dull definitions to dynamic debates. Find out more about the powerful personalized learning experience available in SmartBook 2.0 at [www.mheducation.com/highered/connect/smartbook](http://www.mheducation.com/highered/connect/smartbook)

### Make it simple, make it affordable.



Connect makes it easy with seamless integration using any of the major Learning Management Systems—Blackboard®, Canvas, and D2L, among others—to let you organize your course in one convenient location. Give your students access to digital materials at a discount with our inclusive access program. Ask your McGraw-Hill representative for more information.

Padlock: Jobalou/Getty Images

### Solutions for your challenges.



A product isn't a solution. Real solutions are affordable, reliable, and come with training and ongoing support when you need it and how you want it. Our Customer Experience Group can also help you troubleshoot tech problems—although Connect's 99% uptime means you might not need to call them. See for yourself at **status.mheducation.com**

Checkmark: Jobalou/Getty Images



**SUPPORT <sup>AT</sup>**  
*every step*

## FOR STUDENTS

### Effective, efficient studying.

Connect helps you be more productive with your study time and get better grades using tools like SmartBook 2.0, which highlights key concepts and creates a personalized study plan. Connect sets you up for success, so you walk into class with confidence and walk out with better grades.

### Study anytime, anywhere.

Download the free ReadAnywhere app and access your online eBook or SmartBook 2.0 assignments when it's convenient, even if you're offline. And since the app automatically syncs with your eBook and SmartBook 2.0 assignments in Connect, all of your work is available every time you open it. Find out more at [www.mheducation.com/readanywhere](http://www.mheducation.com/readanywhere)

***"I really liked this app—it made it easy to study when you don't have your textbook in front of you."***

- Jordan Cunningham,  
Eastern Washington University



Calendar: owattaphotos/Getty Images

### No surprises.

The Connect Calendar and Reports tools keep you on track with the work you need to get done and your assignment scores. Life gets busy; Connect tools help you keep learning through it all.

### Learning for everyone.

McGraw-Hill works directly with Accessibility Services Departments and faculty to meet the learning needs of all students. Please contact your Accessibility Services office and ask them to email [accessibility@mheducation.com](mailto:accessibility@mheducation.com), or visit [www.mheducation.com/about/accessibility](http://www.mheducation.com/about/accessibility) for more information.

Top: Jenner Images/Getty Images, Left: Hero Images/Getty Images, Right: Hero Images/Getty Images



# BRIEF CONTENTS

Gold Standard vii

## PART 1

**Business Trends:** Cultivating a Business in Diverse, Global Environments 2

- 1 Exploring the Business Environment and Economics 2
- 2 Doing Business in Global Markets 36
- 3 Demanding Ethical and Socially Responsible Behavior 66

## PART 2

**Business Ownership:** Starting a Small Business 90

- 4 How to Form a Business 90
- 5 Entrepreneurship and Starting a Small Business 120

## PART 3

**Business Management:** Empowering Employees to Satisfy Customers 148

- 6 Management and Leadership 148
- 7 Structuring Organizations for Today's Challenges 172
- 8 Production and Operations Management 200

## PART 4

**Management of Human Resources:** Motivating Employees to Produce Quality Goods and Services 226

- 9 Motivating Employees 226
- 10 Human Resource Management: Finding and Keeping the Best Employees 252

## PART 5

**Marketing:** Developing and Implementing Customer-Oriented Marketing Plans 288

- 11 Marketing: Helping Buyers Buy 288
- 12 Managing the Marketing Mix: Product, Price, Place, and Promotion 314

## PART 6

**Managing Business Information** 354

- 13 Using Technology to Manage Information 354
- 14 Understanding Accounting and Financial Information 382

## PART 7

**Managing Financial Resources** 406

- 15 Financial Management 406
- 16 Money, Financial Institutions, and the Federal Reserve 432

### Bonus Chapters

- A Working within the Legal Environment A
- B Managing Risk B
- C Managing Personal Finance and Investing C

### EPILOGUE E

- Glossary G
- Name Index I-1
- Organization Index I-7
- Subject Index I-11

# CONTENTS

Gold Standard vii

## PART 1

**Business Trends: Cultivating a Business in Diverse, Global Environments** 2

### CHAPTER 1

**Exploring the Business Environment and Economics** 2

**GETTING TO KNOW ANN-MARIE CAMPBELL OF HOME DEPOT** 3

**Business and Wealth Building** 4

- The Importance of Entrepreneurs to the Creation of Wealth 4
- Responding to the Various Business Stakeholders 5
- Using Business Principles in Nonprofit Organizations 5

**The Business Environment** 7

- The Economic and Legal Environment 7
- The Technological Environment 8
- The Competitive Environment 8
- The Social Environment 8

**ADAPTING TO CHANGE: UP, UP, AND AWAY** 9

- The Global Environment 9

**Understanding Economics** 10

**Types of Economic Systems** 11

- Understanding Socialism 12
- Understanding Communism 12
- Understanding Free-Market Capitalism 13
- The Trend toward Mixed Economies 15

**Understanding the U.S. Economic System** 16

- How Free Markets Work 16

**MAKING ETHICAL DECISIONS: BAD MEDICINE FOR CONSUMERS?** 19

- Key Economic Indicators 20

**REACHING BEYOND OUR BORDERS: INFLATION AT THE SPEED OF SOUND** 21

- The Business Cycle 22
- Stabilizing the Economy through Fiscal Policy 22
- Using Monetary Policy to Keep the Economy Growing 23

**The Evolution of U.S. Business** 24

- Progress in the Agricultural and Manufacturing Industries 24
- Progress in the Service Industries 25
- Your Future in Business 25

**ADAPTING TO CHANGE: SERVICES EXPAND THE CIRCULAR ECONOMY** 27

**Summary** 28

**Key Terms** 31

**Critical Thinking** 31

**Putting Principles to Work** 31

**Developing Career Skills** 32

**Career Exploration** 32

**Video Case 1: Grubhub and the Dynamic Business Environment** 33

**Video Case 2: Kiva: Giving Poor Entrepreneurs a Chance** 33

**Notes** 34

### CHAPTER 2

**Doing Business in Global Markets** 36

**GETTING TO KNOW TIM COOK, CEO OF APPLE INC.** 37

**The Dynamic Global Market** 38

**Why Trade with Other Nations?** 39

- The Theories of Comparative and Absolute Advantage 40

**Getting Involved in Global Trade** 40

- Importing Goods and Services 41
- Exporting Goods and Services 41

**CONNECTING THROUGH SOCIAL MEDIA: MY HOME IS YOUR HOME** 42

- Measuring Global Trade 42

**Strategies for Reaching Global Markets** 44

- Licensing 44
- Exporting 45
- Franchising 45

**ADAPTING TO CHANGE: MANY FLAGS FLY OVER THE GOLDEN ARCHES** 46

- Contract Manufacturing 47
- International Joint Ventures and Strategic Alliances 47
- Foreign Direct Investment 48

**Forces Affecting Trading in Global Markets** 49

- Sociocultural Forces 49
- Economic and Financial Forces 50
- Legal and Regulatory Forces 52

**MAKING ETHICAL DECISIONS: EXPORTING YOUR PROBLEMS AWAY** 53

- Physical and Environmental Forces 53

<b>Trade Protectionism</b>	54
The World Trade Organization	55
Common Markets	55
North American and Central American Free Trade Agreements	56
<b>The Future of Global Trade</b>	57
The Challenge of Offshore Outsourcing	59
Globalization and Your Future	59
<b>Summary</b>	60
<b>Key Terms</b>	61
<b>Critical Thinking</b>	62
<b>Putting Principles to Work</b>	62
<b>Developing Career Skills</b>	62
<b>Career Exploration</b>	63
<b>Video Case: Domino's Wild World of Pizza</b>	63
<b>Notes</b>	64

## CHAPTER 3

### Demanding Ethical and Socially Responsible Behavior 66

GETTING TO KNOW **AARON AND EVAN STEED, COFOUNDERS OF MEATHEAD MOVERS** 67

#### Ethics Is More Than Legality 68

    Ethical Standards Are Fundamental 69

    Ethics Begins with Each of Us 70

MAKING ETHICAL DECISIONS: ETHICS BEGINS WITH YOU 71

#### Managing Businesses Ethically and Responsibly 71

#### Setting Corporate Ethical Standards 72

#### Corporate Social Responsibility 74

    Responsibility to Customers 76

    Responsibility to Investors 78

    Responsibility to Employees 79

    Responsibility to Society and the Environment 79

    Social Auditing 81

#### International Ethics and Social Responsibility 82

REACHING BEYOND OUR BORDERS: ETHICAL CULTURE CLASH 83

**Summary** 84

**Key Terms** 85

**Critical Thinking** 85

**Putting Principles to Work** 86

**Developing Career Skills** 86

**Career Exploration** 87

**Video Case: Conscious Marketing at Gluten Free Bars** 87

**Notes** 88

## PART 2

### Business Ownership: Starting a Small Business 90

## CHAPTER 4

### How to Form a Business 90

GETTING TO KNOW: **PETER CANCRO, FOUNDER OF JERSEY MIKE'S SUBS** 91

#### Basic Forms of Business Ownership 92

##### Sole Proprietorships 93

    Advantages of Sole Proprietorships 93

    Disadvantages of Sole Proprietorships 93

##### Partnerships 94

    Advantages of Partnerships 95

    Disadvantages of Partnerships 96

MAKING ETHICAL DECISIONS: GOOD BUSINESS, BAD KARMA? 98

##### Corporations 98

    Advantages of Corporations 99

    Disadvantages of Corporations 100

ADAPTING TO CHANGE: KICKSTARTING A BENEFIT CORPORATION 101

    Individuals Can Incorporate 102

    S Corporations 102

    Limited Liability Companies 103

#### Corporate Expansion: Mergers and Acquisitions 104

##### Franchises 107

    Advantages of Franchises 107

SPOTLIGHT ON SMALL BUSINESS: UNLOCKING A GROWING FRANCHISE 109

    Disadvantages of Franchises 109

    Diversity in Franchising 110

    Home-Based Franchises 111

    E-commerce in Franchising 111

    Using Technology in Franchising 111

    Franchising in Global Markets 112

##### Cooperatives 112

#### Which Form of Ownership Is for You? 113

**Summary** 114

**Key Terms** 116

**Critical Thinking** 116

**Putting Principles to Work** 116

**Developing Career Skills** 116

**Career Exploration** 117

**Video Case: Domino's Still Rolling in the Dough** 117

**Notes** 118

**CHAPTER 5****Entrepreneurship and Starting a Small Business 120****GETTING TO KNOW: TRISTAN WALKER, FOUNDER OF WALKER AND COMPANY 121****The Job-Creating Power of Entrepreneurs in the United States 122****SPOTLIGHT ON SMALL BUSINESS: STUDENT START-UPS 123****Why People Take the Entrepreneurial Challenge 123**

- What Does It Take to Be an Entrepreneur? 124
- Turning Your Passions and Problems into Opportunities 124
- Entrepreneurial Teams 125
- Entrepreneurship within Firms 125
- Micropreneurs and Home-Based Businesses 125
- Online Businesses 127
- Encouraging Entrepreneurship: What Government Can Do 128

**Getting Started in Small Business 129**

- Small versus Big Business 130
- Importance of Small Businesses 130
- Small-Business Success and Failure 130

**Learning about Small-Business Operations 132**

- Learn from Others 132
- Get Some Experience 132

**MAKING ETHICAL DECISIONS: SHOULD YOU STAY OR SHOULD YOU GO? 133**

- Take Over a Successful Firm 133

**Managing a Small Business 133**

- Planning Your Business 134
- Financing Your Small Business 136
- Knowing Your Customers 138
- Managing Your Employees 138
- Keeping Records 139
- Looking for Help 139

**Going Global: Small-Business Prospects 140****Summary 142****Key Terms 143****Critical Thinking 143****Putting Principles to Work 144****Developing Career Skills 144****Career Exploration 144****Video Case: Cousins Maine Lobster: From Small-Business Partnership to Successful Franchisor 145****Notes 145****PART 3****Business Management: Empowering Employees to Satisfy Customers 148****CHAPTER 6****Management and Leadership 148****GETTING TO KNOW MICHELLE FREYRE, PRESIDENT OF U.S. BEAUTY AT JOHNSON & JOHNSON 149****Managers' Roles Are Evolving 150****The Four Functions of Management 151****Planning and Decision Making 153****ADAPTING TO CHANGE: WILL STRATEGY ROBOTS REPLACE MANAGERS? 155**

- Decision Making: Finding the Best Alternative 156

**Organizing: Creating a Unified System 157**

- Tasks and Skills at Different Levels of Management 158
- Staffing: Getting and Keeping the Right People 159

**CONNECTING THROUGH SOCIAL MEDIA: WANT TO BE A SOCIAL MEDIA MANAGER? 160****Leading: Providing Continuous Vision and Values 160****MAKING ETHICAL DECISIONS: WHAT DO YOU TELL THE TEAM? 161**

- Leadership Styles 161
- Empowering Workers 163
- Managing Knowledge 163

**Controlling: Making Sure It Works 164**

- A Key Criterion for Measurement: Customer Satisfaction 165

**Summary 166****Key Terms 168****Critical Thinking 168****Putting Principles to Work 169****Developing Career Skills 169****Career Exploration 169****Video Case: Rosetta Stone: Leader in Language Learning 170****Notes 170****CHAPTER 7****Structuring Organizations for Today's Challenges 172****GETTING TO KNOW: MICHELE BUCK, PRESIDENT AND CEO OF THE HERSHEY COMPANY 173****Organizing for Success 174**

- Building an Organization from the Bottom Up 174

**MAKING ETHICAL DECISIONS: WOULD YOU SACRIFICE SAFETY FOR PROFITS? 175****The Changing Organization 175**

- The Development of Organizational Design 176
- Turning Principles into Organizational Design 178

**Decisions to Make in Structuring****Organizations 179**

- Choosing Centralized or Decentralized Authority 179
- Choosing the Appropriate Span of Control 180
- Choosing between Tall and Flat Organizational Structures 180
- Weighing the Advantages and Disadvantages of Departmentalization 180

**Organizational Models 183**

- Line Organizations 183
- Line-and-Staff Organizations 184
- Matrix-Style Organizations 185
- Cross-Functional Self-Managed Teams 186

**ADAPTING TO CHANGE: GOING BOSSLESS 187**

- Going beyond Organizational Boundaries 187

**Managing the Interactions among Firms 188**

- Transparency and Virtual Organizations 188

**Adapting to Change 189****CONNECTING THROUGH SOCIAL MEDIA: BREAKING THE CONNECTION 190**

- Restructuring for Empowerment 190
- Creating a Change-Oriented Organizational Culture 191
- Managing the Informal Organization 192

**Summary 193****Key Terms 194****Critical Thinking 195****Putting Principles to Work 195****Developing Career Skills 195****Career Exploration 196****Video Case: Freshii's Winning Organization 197****Notes 197****CHAPTER 8****Production and Operations Management 200****GETTING TO KNOW: SHAHID KHAN, CEO OF FLEX-N-GATE 201****Manufacturing and Services in Perspective 202****REACHING BEYOND OUR BORDERS: CREATING SKILLED WORKERS WITH GERMAN-STYLE APPRENTICESHIPS 203**

- Manufacturers and Service Organizations Become More Competitive 203

**From Production to Operations Management 204**

- Operations Management in the Service Sector 204

**Production Processes 205**

- The Need to Improve Production Techniques and Cut Costs 207
- Computer-Aided Design and Manufacturing 207
- Flexible Manufacturing 208
- Lean Manufacturing 208
- Mass Customization 208

**ADAPTING TO CHANGE: THE VAST POSSIBILITIES OF 3D PRINTING 209**

- Robotics 209
- 3D Printing 209
- Using Sensing, Measurement, and Process Control 210

**Operations Management Planning 210**

- Facility Location 210
- Facility Location for Manufacturers 211
- Interfirm Operations Management 211

**MAKING ETHICAL DECISIONS: SHOULD WE STAY OR SHOULD WE GO? 212**

- Facility Location in the Future 212
- Facility Layout 212
- Materials Requirement Planning 214
- Purchasing 214
- Just-in-Time Inventory Control 214
- Quality Control 214
- The Baldrige Awards 215
- ISO 9001 and ISO 14001 Standards 216

**Control Procedures: PERT and Gantt Charts 217****Preparing for the Future 218****Summary 219****Key Terms 221****Critical Thinking 221****Putting Principles to Work 221****Developing Career Skills 222****Career Exploration 222****Video Case: Production in the 21st Century 222****Notes 223****PART 4****Management of Human Resources:****Motivating Employees to Produce Quality Goods and Services 226****CHAPTER 9****Motivating Employees 226****GETTING TO KNOW ROSE MARCARIO, CEO OF PATAGONIA 227****The Value of Motivation 228**

- Frederick Taylor: The "Father" of Scientific Management 229
- Elton Mayo and the Hawthorne Studies 230



Motivation and Maslow's Hierarchy of Needs	231
Herzberg's Motivating Factors	232
McGregor's Theory X and Theory Y	234
Theory X	234
Theory Y	235
Ouchi's Theory Z	235
Goal-Setting Theory and Management by Objectives	237
Meeting Employee Expectations: Expectancy Theory	238
Treating Employees Fairly: Equity Theory	238
Putting Theory into Action	239
Motivating through Job Enrichment	239
Motivating through Open Communication	240
ADAPTING TO CHANGE: EMPLOYEE ENGAGEMENT'S MOOD RING	241
Applying Open Communication in Self-Managed Teams	241
Recognizing a Job Well Done	242
Personalizing Motivation	243
Motivating Employees across the Globe	243
Motivating Employees across Generations	243
CONNECTING THROUGH SOCIAL MEDIA: THREE CHEERS FOR PEERS!	245
Summary	246
Key Terms	249
Critical Thinking	249
Putting Principles to Work	249
Developing Career Skills	249
Career Exploration	250
Video Case: Enriching Employees at Taco Bell	250
Notes	251

## CHAPTER 10

### Human Resource Management: Finding and Keeping the Best Employees 252

GETTING TO KNOW <b>HAMDİ ULUKAYA, FOUNDER AND CEO OF CHOBANI</b>	253
Working with People Is Just the Beginning	254
Developing the Ultimate Resource	254
Laws Affecting Human Resource Management	256
Laws Protecting Employees with Disabilities and Older Employees	258
Effects of Legislation	259
Determining a Firm's Human Resource Needs	259
Recruiting Employees from a Diverse Population	261
CONNECTING THROUGH SOCIAL MEDIA: NEED A JOB?	262
Selecting Employees Who Will Be Productive	262

### CONNECTING THROUGH SOCIAL MEDIA: LET'S FACE IT 264

Hiring Contingent Workers 265

### MAKING ETHICAL DECISIONS: INTERN OR INDENTURED SERVANT? 266

#### Training and Developing Employees for Optimum Performance 266

Management Development 268

#### Appraising Employee Performance to Get Optimum Results 268

#### Compensating Employees: Attracting and Keeping the Best 270

Pay Systems 270

Fringe Benefits 270

### REACHING BEYOND OUR BORDERS: MANAGING A GLOBAL WORKFORCE 272

#### Scheduling Employees to Meet Organizational and Employee Needs 273

Flextime Plans 273

Home-Based Work 274

Job-Sharing Plans 274

#### Moving Employees Up, Over, and Out 275

Promoting and Reassigning Employees 275

Terminating Employees 275

Retiring Employees 276

Losing Valued Employees 276

#### Dealing with Labor Unions 276

### SPOTLIGHT ON SMALL BUSINESS: THE FIRE THAT SPARKED THE LABOR MOVEMENT 277

Collective Bargaining 277

Resolving Labor–Management Disagreements 279

Summary 281

Key Terms 283

Critical Thinking 283

Putting Principles to Work 283

Developing Career Skills 284

Career Exploration 284

Video Case 1: Enriching Employees at Hilton 285

Video Case 2: Working with Unions at Freeman 285

Notes 286

## PART 5

### Marketing: Developing and Implementing Customer-Oriented Marketing Plans 288

## CHAPTER 11

### Marketing: Helping Buyers Buy 288

GETTING TO KNOW <b>MICHELLE PHAN, FOUNDER OF IPSY</b>	289
---	-----

**What Is Marketing?** 290

The Evolution of Marketing 291

**CONNECTING THROUGH SOCIAL MEDIA: SNAPPING UP A CUSTOMER BASE** 293

Nonprofit Organizations and Marketing 293

**The Marketing Mix** 294

Applying the Marketing Process 295

Designing a Product to Meet Consumer Needs 295

Setting an Appropriate Price 296

Getting the Product to the Right Place 296

Developing an Effective Promotional Strategy 296

**Providing Marketers with Information** 297

The Marketing Research Process 297

**The Marketing Environment** 300

Global Factors 300

Technological Factors 300

**SPOTLIGHT ON SMALL BUSINESS: CREATING MASS APPEAL FOR A CUSTOM PRODUCT** 301

Sociocultural Factors 301

Competitive Factors 301

Economic Factors 302

**Two Different Markets: Consumer and Business-to-Business (B2B)** 302**The Consumer Market** 303

Segmenting the Consumer Market 303

Reaching Smaller Market Segments 304

Building Marketing Relationships 305

The Consumer Decision-Making Process 305

**ADAPTING TO CHANGE: BUILDING RELATIONSHIPS BY BUILDING SUBSCRIBERS** 306**The Business-to-Business Market** 307

Your Prospects in Marketing 308

**Summary** 308**Key Terms** 310**Critical Thinking** 310**Putting Principles to Work** 310**Developing Career Skills** 310**Career Exploration** 311**Video Case: National Park Service: Using the 4 Ps to Help You Find Your Park** 311**Notes** 312**CHAPTER 12****Managing the Marketing Mix: Product, Price, Place, and Promotion** 314**GETTING TO KNOW TONY McGEE, PRESIDENT AND CEO OF HNM GLOBAL LOGISTICS** 315**Product Development and the Total Product Offer** 316

Developing a Total Product Offer 316

Product Lines and the Product Mix 317

Product Differentiation 318

Packaging Changes the Product 318

**MAKING ETHICAL DECISIONS: NATURAL GOODS: REALLY FROM NATURE?** 319**REACHING BEYOND OUR BORDERS: PLAYING THE NAME GAME** 320**Branding and Brand Equity** 320

Generating Brand Equity and Loyalty 321

Brand Management 321

**The Product Life Cycle** 322

Example of the Product Life Cycle 322

Using the Product Life Cycle 323

**Competitive Pricing** 324

Pricing Objectives 324

Break-Even Analysis 325

Other Pricing Strategies 326

How Market Forces Affect Pricing 326

Nonprice Competition 326

**The Importance of Channels of Distribution** 327

How Intermediaries Create Exchange

Efficiency 328

**Wholesale and Retail Intermediaries** 330

Wholesalers 330

Retailers 330

Retail Distribution Strategy 330

Nonstore Retailing 331

Choosing the Right Distribution Mode 333

**Promotion and the Promotion Mix** 334

Advertising: Informing, Persuading, and

Reminding 335

Television Advertising 336

Product Placement 336

**CONNECTING THROUGH SOCIAL MEDIA: HOW SOCIAL MEDIA MOVE TV RATINGS** 337

Online Advertising 337

Social Media Advertising 338

Global Advertising 338

Personal Selling: Providing Personal Attention 339

**Sales Promotion: Giving Buyers Incentives** 341

Word of Mouth and Other Promotional Tools 342

Social Media and Promotion 342

**ADAPTING TO CHANGE: OUTDOOR “EYES” ARE PULLING YOU IN** 343

Managing the Promotion Mix: Putting It All

Together 343

**Summary** 344**Key Terms** 347**Critical Thinking** 347**Putting Principles to Work** 348**Developing Career Skills** 348**Career Exploration** 349



**Video Case 1: Developing New Products at Domino's** 349

**Video Case 2: Getting Zapped by Promotion** 350

**Video Case 3: Tuft & Needle** 350

**Notes** 351

## PART 6

### Managing Business Information 354

#### CHAPTER 13

#### Using Technology to Manage Information 354

**GETTING TO KNOW BEN FRIED, CIO OF GOOGLE** 355

**The Role of Information Technology** 356

Evolution from Data Processing to Business Intelligence 356

How Information Technology Changes Business 357

**Types of Information** 359

Managing Information 360

Big Data and Data Analytics 361

Using Information from Social Media 362

**The Heart of Knowledge Management:**

**The Internet** 363

Intranets 363

Extranets 363

Virtual Private Networks 363

Broadband Technology 364

Social Media and Web 2.0 365

Web 3.0 366

**ADAPTING TO CHANGE: PREPARING FOR A FUTURE SHAPED BY ARTIFICIAL INTELLIGENCE** 367

Who's the "Boss" of the Internet? 368

**Virtual Networking and Cloud Computing** 369

**Effects of Information Technology on Management** 370

Human Resource Issues 370

Security Issues 371

Privacy Issues 373

**MAKING ETHICAL DECISIONS: STRUGGLING WITH INCREASINGLY TOXIC SOCIAL NETWORKS** 374

Stability Issues 374

**Technology and You** 375

**Summary** 375

**Key Terms** 377

**Critical Thinking** 377

**Developing Career Skills** 378

**Putting Principles to Work** 378

**Career Exploration** 378

**Video Case: Applying Tech with World Wide Technology** 379

**Notes** 379

#### CHAPTER 14

#### Understanding Accounting and Financial Information 382

**GETTING TO KNOW SHELLY SUN, CEO OF BRIGHTSTAR CARE** 383

**The Role of Accounting Information** 384

What Is Accounting? 384

**The Accounting Cycle** 385

Using Technology in Accounting 386

**Understanding Key Financial Statements** 387

The Fundamental Accounting Equation 387

The Balance Sheet 388

Classifying Assets 388

Liabilities and Owners' Equity Accounts 390

The Income Statement 391

Revenue 391

Cost of Goods Sold 391

Operating Expenses 392

**SPOTLIGHT ON SMALL BUSINESS: OUT WITH THE OLD; IN WITH THE NEW** 393

Net Profit or Loss 393

The Statement of Cash Flows 394

The Need for Cash Flow Analysis 394

**MAKING ETHICAL DECISIONS: WHEN YOU ARE JUDGE AND JURY!** 396

**Accounting Disciplines** 396

Financial Accounting 396

Managerial Accounting 398

Auditing 398

Tax Accounting 398

Government and Nonprofit Accounting 398

**ADAPTING TO CHANGE: ACCOUNTING: CSI** 399

**REACHING BEYOND OUR BORDERS: THE WIDE, WIDE WORLD OF ACCOUNTING** 400

**Summary** 401

**Key Terms** 402

**Critical Thinking** 402

**Putting Principles to Work** 403

**Developing Career Skills** 403

**Career Exploration** 403

**Video Case: The Accounting Function at Goodwill Industries** 404

**Notes** 404

## PART 7

### Managing Financial Resources 406

#### CHAPTER 15

#### Financial Management 406

GETTING TO KNOW **DHIVYA SURYADEVARA, VICE PRESIDENT OF CORPORATE FINANCE AND CFO OF GENERAL MOTORS** 407

##### The Role of Finance and Financial Managers 408

The Value of Understanding Finance 409

##### Financial Planning 410

Forecasting Financial Needs 410

Working with the Budget Process 411

Establishing Financial Controls 412

##### The Need for Operating Funds 414

Managing Day-by-Day Needs of the Business 414

Controlling Credit Operations 414

MAKING ETHICAL DECISIONS: NOT WHAT THE DOCTOR ORDERED! 415

Acquiring Needed Inventory 415

Making Capital Expenditures 415

Alternative Sources of Funds 416

##### Obtaining Short-Term Financing 416

Trade Credit 417

Family and Friends 417

Commercial Banks 418

Different Forms of Short-Term Loans 418

Factoring Accounts Receivable 418

ADAPTING TO CHANGE: FINANCING JUST A CLICK AWAY 419

Credit Cards 419

##### Obtaining Long-Term Financing 420

Debt Financing 421

Equity Financing 422

Comparing Debt and Equity Financing 423

SPOTLIGHT ON SMALL BUSINESS: AN ANGEL ON YOUR START-UP'S SHOULDER 424

Summary 425

Key Terms 427

Critical Thinking 427

Putting Principles to Work 427

Developing Career Skills 428

Career Exploration 428

Video Case: Managing Finances at Threadless 429

Notes 430

#### CHAPTER 16

#### Money, Financial Institutions, and the Federal Reserve 432

GETTING TO KNOW **JEROME (JAY) POWELL, CHAIR OF THE FEDERAL RESERVE** 433

##### Why Money Is Important 434

What Is Money? 434

ADAPTING TO CHANGE: SAYING GOODBYE TO BEN FRANKLIN 436

Managing Inflation and the Money Supply 437

The Global Exchange of Money 437

##### Control of the Money Supply 438

Basics about the Federal Reserve 438

The Reserve Requirement 438

Open-Market Operations 439

The Discount Rate 439

The Federal Reserve's Check-Clearing Role 440

##### The History of Banking and the Need for the Fed 440

Banking and the Great Depression 442

##### The U.S. Banking System 443

Commercial Banks 443

Services Provided by Commercial Banks 443

MAKING ETHICAL DECISIONS: AN OPEN AND SHUT OPTION 444

Services to Borrowers 444

Savings and Loan Associations (S&Ls) 444

Credit Unions 444

Other Financial Institutions (Nonbanks) 445

SPOTLIGHT ON SMALL BUSINESS: BECOMING YOUR BEST FRIEND IN BANKING 446

##### The Banking Crisis of 2008 and How the Government Protects Your Money 446

Protecting Your Funds 447

The Federal Deposit Insurance Corporation (FDIC) 447

The Savings Association Insurance Fund (SAIF) 448

The National Credit Union Administration (NCUA) 448

##### Using Technology to Make Banking More Efficient 448

Online Banking 449

##### International Banking and Banking Services 449

Leaders in International Banking 450

The World Bank and the International Monetary Fund 450

REACHING BEYOND OUR BORDERS: NEW DAY, NEW ISSUES ACROSS THE GLOBE 451

<b>Summary</b>	452
<b>Key Terms</b>	454
<b>Critical Thinking</b>	454
<b>Putting Principles to Work</b>	454
<b>Developing Career Skills</b>	454
<b>Career Exploration</b>	455
<b>Video Case: The Financial Crisis</b>	455
<b>Notes</b>	456

## BONUS CHAPTERS

### A

#### Working within the Legal Environment A

##### GETTING TO KNOW ALANNA RUTHERFORD, ATTORNEY A-1

##### The Case for Laws A-2

Statutory and Common Law A-2

##### Administrative Agencies A-3

##### Tort Law A-4

Product Liability A-4

##### Legally Protecting Ideas: Patents, Copyrights, and Trademarks A-6

##### Sales Law: The Uniform Commercial Code A-7

Warranties A-7

Negotiable Instruments A-8

##### Contract Law A-8

Breach of Contract A-9

##### Promoting Fair and Competitive Business Practices A-9

The History of Antitrust Legislation A-10

##### Laws to Protect Consumers A-11

##### Tax Laws A-12

##### Bankruptcy Laws A-13

##### Deregulation versus Regulation A-15

Summary A-17

Key Terms A-19

Critical Thinking A-19

Putting Principles to Work A-19

Developing Career Skills A-20

Career Exploration A-20

Notes A-20

### B

#### Managing Risk B

##### GETTING TO KNOW OLGA “TONY” NICELY, CHAIR OF GEICO B-1

##### Understanding Business Risks B-2

How Rapid Change Affects Risk Management B-3

##### Managing Risk B-3

Reducing Risk B-3

Avoiding Risk B-4

Self-Insuring B-4

Buying Insurance to Cover Risk B-4

What Risks Are Uninsurable? B-5

What Risks Are Insurable? B-5

##### Understanding Insurance Policies B-6

Rule of Indemnity B-7

Types of Insurance Companies B-7

##### Insurance Coverage for Various Kinds of Risk B-7

Health Insurance B-7

Health Savings Accounts B-7

Disability Insurance B-9

Workers' Compensation B-9

Liability Insurance B-9

Life Insurance for Businesses B-10

Insurance Coverage for Home-Based Businesses B-10

The Risk of Damaging the Environment B-10

Protection from Cyber Attacks B-10

Summary B-11

Key Terms B-12

Critical Thinking B-12

Putting Principles to Work B-12

Developing Career Skills B-12

Career Exploration B-13

Notes B-13

### C

#### Managing Personal Finance and Investing C

##### GETTING TO KNOW ALEXA VON TOBEL, FOUNDER AND CEO OF LEARNVEST C-1

##### The Need for Personal Financial Planning C-2

Financial Planning Begins with Making Money C-2

Six Steps to Controlling Your Assets C-3

##### Building Your Financial Base C-6

Real Estate: Historically, a Relatively Secure Investment C-6

Tax Deductions and Home Ownership C-8

Learning to Manage Credit C-8

Where to Put Your Savings C-9

##### Growing Your Wealth through Investing C-10

Choosing the Right Investment Strategy C-10

Reducing Risk by Diversifying Investments C-10

Investing through Online Brokers and

Robo-Advisors C-11

Investing in Stocks C-12  
Investing in Bonds C-12  
Investing in Mutual Funds and Exchange-Traded  
Funds C-13

**Protecting Your Financial Base: Buying  
Insurance C-14**

Health Insurance C-15  
Disability Insurance C-15  
Homeowner's or Renter's Insurance C-16  
Other Insurance C-16

**Planning Your Retirement C-16**

Social Security C-16  
Individual Retirement Accounts (IRAs) C-17  
Simple IRAs C-18  
401(k) Plans C-18  
Qualified Plans (Keoghs) C-19  
Financial Planners C-20  
Estate Planning C-20

**Summary C-21**

**Key Terms C-23**

**Critical Thinking C-23**

**Putting Principles to Work C-23**

**Developing Career Skills C-23**

**Career Exploration C-24**

**Notes C-24**

**EPILOGUE**

**Getting the Job You Want E**

---

Job Search Strategy E-1  
Searching for Jobs Online E-3  
Job Search Resources E-4  
Writing Your Résumé E-5  
Putting Your Résumé Online E-5  
Writing a Cover Letter E-8  
Preparing for Job Interviews E-10  
Being Prepared to Change Careers E-12

Glossary G

Name Index I-1

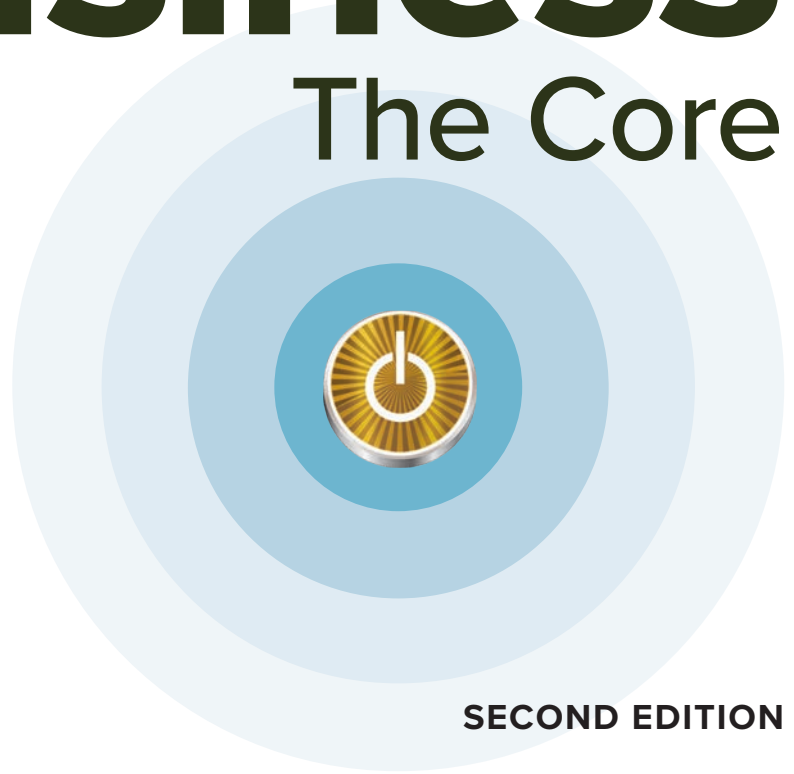
Organization Index I-7

Subject Index I-11

UNDERSTANDING

# Business

The Core



SECOND EDITION

# 1

## Exploring the Business Environment and Economics

### LEARNING OBJECTIVES »

*After you have read and studied this chapter,  
you should be able to*

- LO 1-1** Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.
- LO 1-2** Describe how each of the five elements of the business environment affect business.
- LO 1-3** Explain basic economics.
- LO 1-4** Compare and contrast the various types of economic systems and explain the trend toward mixed economies.
- LO 1-5** Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.
- LO 1-6** Contrast fiscal policy and monetary policy, and explain how each affects the economy.
- LO 1-7** Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

## GETTING TO KNOW

# Ann-Marie Campbell of Home Depot

**S**tarting a new job isn't easy. With many things to learn and people to meet, even experienced workers can get overwhelmed on their first day at work on a new job. So imagine how Ann-Marie Campbell must have felt more than 30 years ago, when as a new immigrant with a thick Jamaican accent, she walked into Home Depot for her first shift. But thanks to her hard work and committed attitude, Campbell rose up the ranks at Home Depot. Now as executive vice president of U.S. stores, she oversees the operation of more than 2,000 locations.

Campbell was born in the Jamaican capital of Kingston to a successful couple with four children. But this happy childhood took a tragic turn when her father died in a car accident. Campbell and her siblings spent the rest of their youth being raised mainly by their grandmother, an intensely driven woman with no fear of hard work. "My grandmother was divorced and she had 10 children herself," said Campbell. "She started selling lace on the side of the road and then grew that into a multimillion-dollar business—a retail store selling mostly furniture and appliances."

This store became Campbell's second home when she had time off from the strict boarding school she attended. Helping her grandmother with day-to-day duties taught her many important lessons about how to do business. Her grandmother's advice and the discipline she learned at school helped Campbell enormously when she made the move to Miami as a teenager and got a job as a part-time sales associate at Home Depot to help pay her college tuition. While Campbell's experience and dedication helped her excel at the job quickly, she still faced a number of challenges in this new environment. "I was really the only woman on the sales floor back then, and when customers would come in with an issue, they'd demand to speak to, you know, a guy," said Campbell. Rather than lose her temper, though, she developed a clever response to this demand. "I'd pick the guy who knew the least to come help. The man would always have to kick the question back to me."

A similarly bold move brought Campbell to the attention of Home Depot's upper management. One day, a company executive visited the store and asked a big group of employees a question. None of her co-workers responded, but Campbell confidently answered the executive's inquiry. "Later, when he was walking out of the store, he asked the manager who I was," said Campbell. "That's how I got on the radar." This boost gave her the confidence and the connections to pursue promotions within the company. Her first advanced post was as head of the paint department, followed eventually by her appointment as manager of the entire store.

Campbell earned a master of business administration in 2005 that allowed her to climb even higher up the corporate ladder. By 2016 she became executive vice president of U.S.

stores, a position that places her in charge of Home Depot's more than 400,000 employees. Every day Campbell works to provide these employees with the same opportunities for advancement that she received, which is a duty she does not take lightly. "It's only when you develop others that you permanently succeed," said Campbell. "When I do have opportunities to speak to students, or even to my kids, that's the type of value that I instill in them. It's not just about you. The world is a community. Everyone has their part, so let's go out and make sure everyone is able to do it successfully." Campbell's efforts have not gone unrecognized. *Fortune* magazine listed her among its top 50 most powerful women in business for four consecutive years. DoSomething.org named her one of its 2018 Inspirational 25, a group of leaders who are shattering expectations and challenging the status quo in the pursuit of a better world.

The business environment is constantly changing, and along with those changes come opportunities. The purpose of this chapter, and this textbook, is to introduce you to the dynamic world of business and to some of the people who thrive in it. Businesspeople like Ann-Marie Campbell contribute much to the communities they serve, and they also make a good living doing so. That's what business is all about.

Sources: Doug Gillett, "Ann-Marie Campbell's American Dream," *Georgia State University Magazine*, accessed March 2019; Ellen McGirt, "How Home Depot's Ann-Marie Campbell Rose from Cashier to the C-Suite," *Fortune*, September 13, 2016; "Ann-Marie Campbell's American Dream," Funvibes Radio, February 18, 2016; Henry Unger, "If You Have a Seat at the Table, Speak Up," *Atlanta Journal Constitution*, March 26, 2015; Boardroom Insiders, "Ann-Marie Campbell," accessed March 2019; Daphne Howland, "Women in Retail among Fortune's 'Most Powerful,'" *retaildive.com*, September 25, 2018; "Most Powerful Women in Business," *fortune.com*, September 23, 2019; *homedepot.com*, accessed October 2019.







**EVEN THOUGH THIS IS A JAPANESE COMPANY**, the production values from its factory in Ohio are included in the U.S. GDP. Name that company. (You will find the answer in this chapter.)

### business

Any activity that seeks to provide goods and services to others while operating at a profit.

### goods

Tangible products such as computers, food, clothing, cars, and appliances.

### services

Intangible products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism.

### revenue

The total amount of money a business takes in during a given period by selling goods and services.

## LO 1-1

**Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.**

## Business and Wealth Building

Success in business is based on constantly adapting to changes in the market. A **business** is any activity that seeks to provide goods and services to others while operating at a profit. **Goods** are *tangible* products such as computers, food, clothing, cars, and appliances. **Services** are *intangible* products (i.e., products that can't be held in your hand) such as education, health care, insurance, recreation, and travel and tourism. Once you have developed the right goods and services, based on consumer wants and needs, you need to reach those consumers using whatever media they prefer, including TV, social media, online advertising, and more.

**Revenue** is the total amount of money a business takes in during a given period by selling goods and services. **Profit** is the amount of money a business earns above and beyond what it spends for salaries and other expenses needed to run the operation. A **loss** occurs when a business's expenses are more than its revenues. If a business loses money over time, it will likely have to close, putting its employees out of work. Over 175,000 businesses in the United States close each year.<sup>1</sup>

*In 1979, Geral Fauss took 5,000 oversized foam fingers to the Sugar Bowl in New Orleans not knowing if he would sell a single one. The former high school shop teacher created the now-famous fingers a few years earlier and they became a big hit with his students. Fortunately, the Sugar Bowl crowd liked them, too. He sold every last finger and launched a company that is still going strong. What risks and rewards did Fauss face when starting his business?*

## The Importance of Entrepreneurs to the Creation of Wealth

An **entrepreneur** is a person who risks time and money to start and manage a business. **Risk** is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. Successful entrepreneurs not only earn money for themselves; they also provide employment for many other people. Businesses and their employees pay taxes that the federal government and local communities use to build hospitals, schools, libraries, playgrounds, roads, and other public facilities. Taxes also help keep the environment clean, support people in need, and provide police and fire protection. Thus, the wealth businesses generate, and the taxes they pay, help everyone in their communities. A nation's businesses are part of an economic system that contributes to the standard of living of everyone in the country (and, potentially, the world).



Tom Hauck/AP Images

The term **standard of living** refers to the amount of goods and services people can buy with the money they have. For example, the United States



has one of the highest standards of living in the world, even though workers in some other countries, such as Germany and Japan, may on average make more money per hour. How can that be? Prices for goods and services in Germany and Japan are higher than in the United States, so a person in those countries can buy less than what a person in the United States can buy with the same amount of money. For example, a bottle of beer may cost \$7 in Japan and \$4 in the United States.

Often, goods cost more in one country than in another because of higher taxes and stricter government regulations. Finding the right level of taxes and regulation is important in making a country or city prosperous. We'll explore those issues in more depth later in this chapter. At this point, it is enough to understand that the United States enjoys a high standard of living largely because of the wealth created by its businesses.

## Responding to the Various Business Stakeholders

**Stakeholders** are all the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address. They include customers, employees, stockholders, suppliers, dealers (retailers), bankers, people in the surrounding community, the media, environmentalists, competitors, unions, critics, and elected government leaders (see Figure 1.1).

A primary challenge for organizations is to recognize and respond to the needs of their stakeholders. For example, the need for the business to make profits may be balanced against the needs of employees to earn sufficient income or the need to protect the environment. Ignore the media, and they might attack your business with articles that hurt sales. Oppose the local community, and it may stop you from expanding. Pleasing stakeholders is not easy and often calls for trade-offs.

## Using Business Principles in Nonprofit Organizations

Despite their efforts to satisfy their stakeholders, businesses cannot do everything needed to make a community all it can be. Nonprofit organizations—such as public schools, civic

### profit

The amount of money a business earns above and beyond what it spends for salaries and other expenses.

### loss

When a business's expenses are more than its revenues.

### entrepreneur

A person who risks time and money to start and manage a business.

### risk

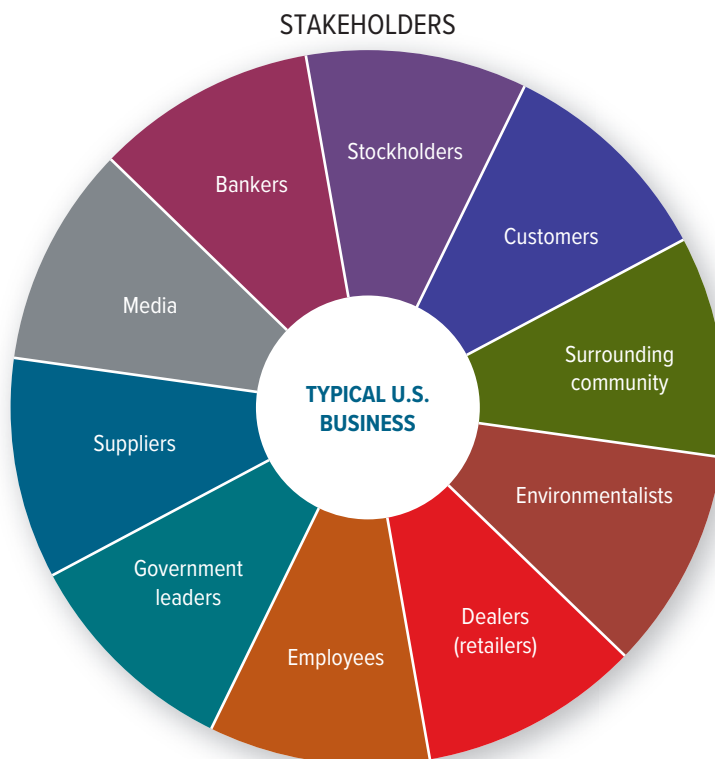
(1) The chance an entrepreneur takes of losing time and money on a business that may not prove profitable. (2) The chance of loss, the degree of probability of loss, and the amount of possible loss.

### standard of living

The amount of goods and services people can buy with the money they have.

### stakeholders

All the people who stand to gain or lose by the policies and activities of a business and whose concerns the business needs to address.



**FIGURE 1.1 A BUSINESS AND ITS STAKEHOLDERS**

Often the needs of a firm's various stakeholders will conflict. For example, paying employees more may cut into stockholders' profits. Balancing such demands is a major role of business managers.

Source: John Mackey and Raj Sisodia, *Conscious Capitalism* (Boston, MA: Harvard Business Review Press, 2013).

*The goals of nonprofit organizations are social and educational, not profit-oriented. The American Red Cross, for example, provides assistance to around 30 million people annually, from refugees to victims of natural disasters. Why do good management principles apply equally to profit-seeking businesses and nonprofit organizations?*



JORGE GUERRERO/AFP/Getty Images

### nonprofit organization

An organization whose goals do not include making a personal profit for its owners or organizers.

associations, charities like the United Way and the Salvation Army, and groups devoted to social causes—also make a major contribution to the welfare of society. A **nonprofit organization** is an organization whose goals do not include making a personal profit for its owners or organizers. Nonprofit organizations often do strive for financial gains, but they use them to meet their social or educational goals rather than for personal profit.

Your interests may lead you to work for a nonprofit organization. That doesn't mean, however, that you shouldn't study business in college. You'll still need to learn business skills such as information management, leadership, marketing, and financial management. The knowledge and skills you acquire in this and other business courses are useful for careers in any organization, including nonprofits.



- What is the difference between *revenue* and *profit*?
- What is *risk*, and how is it related to *profit*?
- What is *standard of living*?
- What does the term *stakeholders* mean?

**LO 1–2** Describe how each of the five elements of the business environment affect business.

## The Business Environment

The **business environment** consists of the surrounding factors that either help or hinder the development of businesses. Figure 1.2 shows the five elements in the business environment:

1. The economic and legal environment.
2. The technological environment.
3. The competitive environment.
4. The social environment.
5. The global business environment.

Businesses normally can't control their environment, but they need to monitor it carefully and do what they can to adapt as it changes.

### The Economic and Legal Environment

People are willing to start new businesses if they believe the risk of losing their money isn't too great. A country's economic system and laws can have a strong impact on that level of risk. For example, one way government can promote entrepreneurship is to allow private

#### business environment

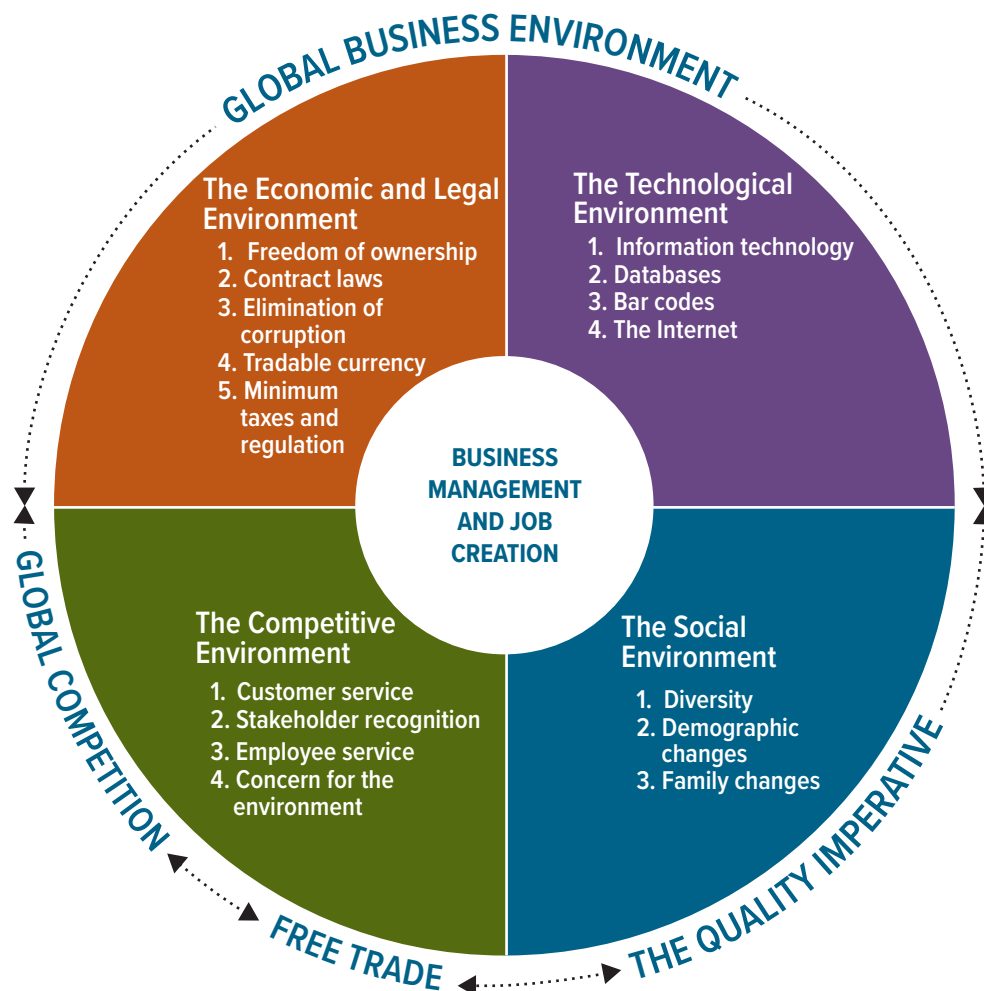
The surrounding factors that either help or hinder the development of businesses.



**connect**



**iSeeit!** Need help understanding the impact of today's dynamic business environment? Visit your Connect eBook to view a video for a brief animated explanation.



**FIGURE 1.2** TODAY'S DYNAMIC BUSINESS ENVIRONMENT

*Starting a business is more difficult in some countries than in others. In India, for example, it takes a time-consuming and bureaucratic process to obtain government permission. Nonetheless, new businesses can become a major source of wealth and employment. This sari shop is one small example. What do you think would be the effect of a little more freedom to create business opportunities in this country of over a billion people?*



Partha Pal/Getty Images

ownership of businesses. In some countries, the government owns most businesses, and there's little incentive for people to work hard or create profit. The legal system regulates what businesses can and cannot do. This includes everything from marketing and product safety to contracts and acceptable business conduct. (You can read more about business laws in Bonus Chapter A.)

## The Technological Environment

### technology

Everything from phones to computers, medical imaging devices, personal digital assistants, and the various software programs that make business processes more effective, efficient, and productive.

### productivity

The amount of output you generate given the amount of input (e.g., hours worked).

### demography

The statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income.

**Technology** means everything from phones to computers, mobile devices, medical imaging machines, robots, the Internet, social media, and the various software programs and apps that make business processes more effective, efficient, and productive.<sup>2</sup> *Effectiveness* means producing the desired result. *Efficiency* means producing goods and services using the least amount of resources. **Productivity** is the amount of output you generate given the amount of input (e.g., hours worked).<sup>3</sup> The Adapting to Change box discusses how one form of technology, drones, can make businesses more effective, efficient, and productive. You can read about how businesses use technology in Chapter 13.

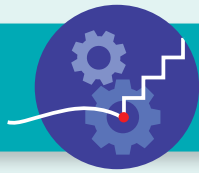
## The Competitive Environment

Successful companies strive to offer high-quality products and outstanding service at competitive prices. Businesses have become more customer-driven, not management-driven as often occurred in the past. To meet the needs of customers, firms must understand their needs and wants, establish strong relationships with suppliers, and differentiate themselves from their competitors. We will explore these ideas in more depth in Chapter 11.

## The Social Environment

**Demography** is the statistical study of the human population with regard to its size, density, and other characteristics such as age, race, gender, and income. The U.S. population is going through major changes that are dramatically affecting how people live, where they live, what they buy, and how they spend their time. Furthermore, tremendous population





## ADAPTING TO **CHANGE**

### *Up, Up, and Away*

**S**ure, drones can deliver a wide variety of things—everything from your Amazon order to a precisely targeted bomb. But they can also help businesses be more productive and efficient. Drones can scan, map, and gather data, tasks that used to require satellites, planes, and helicopters that only the deepest-pocketed companies could afford. Today even small businesses can pick up a drone for a few hundred dollars.

Construction companies can use drones to collect data far more frequently and accurately than they can with manned aircraft and human surveyors. Farmers can survey their fields of crops. Communication companies can inspect lofty cell towers. Property inspectors can inspect buildings. And this can all be done at much lower costs than traditional methods. For example,

building inspectors usually charge \$200–\$300 for a typical home roof inspection that can take six hours. However, if the inspector uses a drone, the cost is \$10 and takes only an hour. And piloting a drone is much less risky than climbing ladders or cell towers.

Of course, there are many concerns about the use of drones. Drones have been used to buzz planes, endanger military aircraft, and spy on neighbors' property with tiny video cameras. To combat these threats, Congress has proposed giving the Federal Aviation Administration (FAA) more authority to regulate the use of drones. The drone industry



Jochen Tack/Alamy Stock Photo

is concerned that the lawmakers will inhibit the development and use of drones in their effort to rein in the people who misuse them. What do you think the government should do to regulate drones?

Sources: Michael Larkin, "Commercial Drones Unleashed: New Rules May Spark Industrial Revolution," *Investor's Business Daily*, March 2, 2019; Stephen Rice, "Eyes in the Sky: The Public Has Privacy Concerns about Drones," *Forbes*, February 4, 2019; Andy Pasztor, "FAA Proposes More Commercial Drone Operations at Night and over People," *The Wall Street Journal*, January 14, 2019.

shifts are leading to new opportunities for some firms and to declining opportunities for others. For example, there are many more retired workers than in the past, creating new markets for all kinds of goods and services such as home health care, transportation, recreation, and the like. On the other hand, retired people can drain the economy of wealth. The pay-as-you-go Social Security system (in which workers today pay the retirement benefits for today's retirees) operated just fine in 1940, when 42 workers supported each retiree; but today that number is under 3 and is projected to drop to 2 by 2030.<sup>4</sup> In short, paying Social Security to senior citizens in the future will draw huge amounts of money from the working population.

## **The Global Environment**

The global environment includes all of the international factors that affect business, such as trade agreements, international economic conditions, war and terrorism, climate change, and so forth. The global environment of business is so important that we show it as surrounding all other environmental influences (see again Figure 1.2). World trade, or *globalization*, has grown due to the development of efficient distribution systems (we'll talk about these in Chapter 12) and communication advances such as the Internet (discussed in Chapter 13). World trade has its benefits and costs. You'll read much more about its importance in Chapter 2 and in the Reaching Beyond Our Borders boxes throughout the text.

## ? TESTPREP

- What are the five elements of the business environment?
- What are some ways a country's economic and legal systems affect entrepreneurship?
- What's the difference between effectiveness, efficiency, and productivity?
- How does a changing demography affect business?

### economics

The study of how society chooses to employ resources to produce goods and services and distribute them for consumption among various competing groups and individuals.

### macroeconomics

The part of economics study that looks at the operation of a nation's economy as a whole.

### microeconomics

The part of economics study that looks at the behavior of people and organizations in particular markets.

*New ways of producing goods and services add resources to the economy and create more employment. Fish farms, for instance, create both food and jobs. Can you think of other innovations that can help increase economic development?*

### LO 1–3 Explain basic economics.

## Understanding Economics

**Economics** is the study of how society chooses to employ resources to produce goods and services and distribute them for consumption among various competing groups and individuals. There are two major branches of economics: **macroeconomics** looks at the operation of a nation's economy as a whole (the whole United States), and **microeconomics** looks at the behavior of people and organizations in markets for particular products or services. A question in macroeconomics might be: What should the United States do to lower its national debt?<sup>5</sup> Macroeconomic topics in this chapter include gross domestic product (GDP), the unemployment rate, and price indexes. A question in microeconomics might be: Why do people buy smaller cars when gas prices go up? Such questions seem easier to answer.

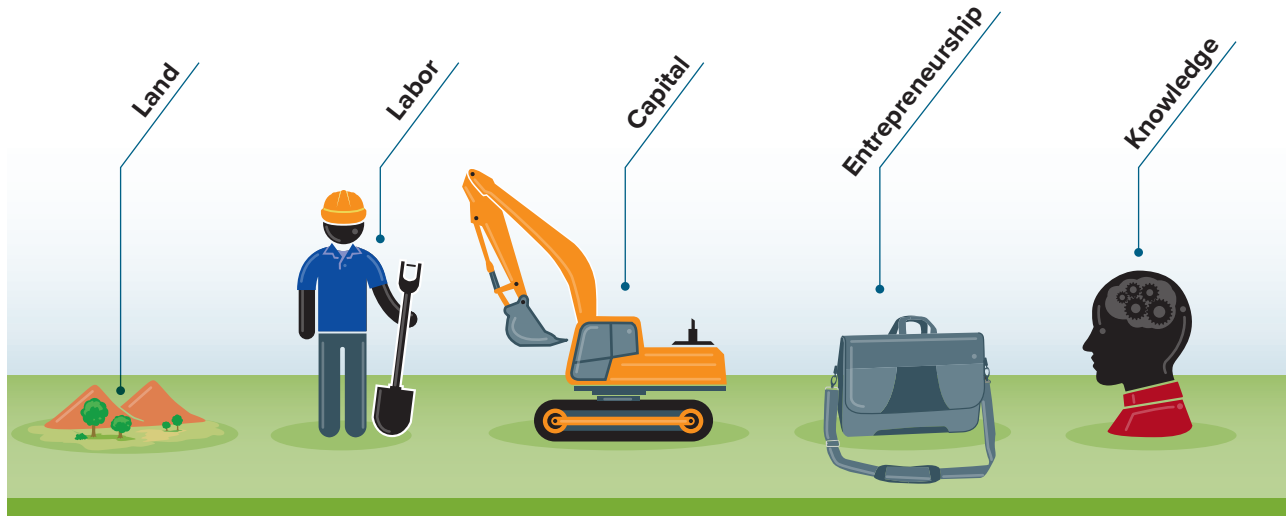
Some economists define economics as the study of the allocation of *scarce* resources. They believe resources need to be carefully divided among people, usually by the government. However, there's no way to maintain peace and prosperity in the world by merely dividing the resources we have today among the existing nations. There aren't enough known resources to do that. **Resource development** is the study of how to increase resources (such as by creating new ways of producing goods, like fish farming or hydroponics) and create conditions that will make better use of them (like recycling and conservation).

The **factors of production** are the resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge (see Figure 1.3):

1. *Land* (or natural resources). Land and other natural resources are used to make homes, cars, and other products.
2. *Labor* (workers). People have always been an important resource in producing goods and services, but many people are now being replaced by technology.
3. *Capital*. This includes machines, tools, buildings, or whatever else is used in the production of goods. It might not include money; money is used to buy factors of production but is not always considered a factor by itself.
4. *Entrepreneurship*. All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.
5. *Knowledge*. Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.



Mark Conlin/Getty Images

**FIGURE 1.3** THE FIVE FACTORS OF PRODUCTION

Source: Drucker Institute, druckerinstitute.com, accessed March 2019.

The various types of economic systems decide differently how to use the factors of production to meet the needs of society. We'll discuss the types of economic systems after the Test Prep.

### resource development

The study of how to increase resources and to create the conditions that will make better use of those resources.

?

TESTPREP

- What is economics?
- What is the difference between macroeconomics and microeconomics?
- What are the five factors of production? Which ones seem to be the most important for creating wealth?

### LO 1-4

**Compare and contrast the various types of economic systems and explain the trend toward mixed economies.**

## Types of Economic Systems

The two types of economic systems today are command economies and free-market economies.

1. **Command economies** exist when the government largely decides what goods and services will be produced, who gets them, and how the economy will grow. *Socialism* and *communism* are variations on this economic system.
2. **Free-market economies** exist when the market largely determines what goods and services get produced, who gets them, and how the economy grows. *Capitalism* is the popular term for this economic system.

Next, we'll take a brief look at each of these economic systems and discuss their benefits and limitations.

### factors of production

The resources used to create wealth: land, labor, capital, entrepreneurship, and knowledge.

### command economies

Economic systems in which the government largely decides what goods and services will be produced, who will get them, and how the economy will grow.

### free-market economies

Economic systems in which the market largely determines what goods and services get produced, who gets them, and how the economy grows.

### socialism

An economic system based on the premise that some, if not most, basic businesses should be owned by the government so that profits can be more evenly distributed among the people.

*Socialism has been more successful in some countries than in others. This photo shows Denmark's clean and modern public transportation system. In Greece, overspending caused a debt crisis that forced the government to impose austerity measures that many Greeks oppose. What other factors might lead to slower growth in socialist countries?*

## Understanding Socialism

**Socialism** is an economic system based on the premise that some, if not most, basic businesses (e.g., steel mills, coal mines, and utilities) should be owned by the government so that profits can be more evenly distributed among the people. Entrepreneurs often own and run smaller businesses, and individuals are often taxed relatively steeply to pay for social programs.

The major benefit of socialism is more social equality. Free education through college, free health care, and free child care are some of the benefits socialist governments, using



Kathy deWitt/Alamy Stock Photo

the money from taxes, may provide to their people. Workers in socialist countries usually get longer vacations, work fewer hours per week, and have more employee benefits (e.g., generous sick leave) than those in countries where free-market capitalism prevails.

Socialism promises to create more equality than capitalism, but it takes away some of businesspeople's incentives since they have to pass on so much of their income to the government (in the form of taxes). This causes many innovators, creative thinkers, doctors, lawyers, business owners, and others who earn a lot of money to leave the country. This loss of the best and brightest people to other countries is called a **brain drain**.

Socialism also tends to result in fewer inventions and less innovation, because those who come up with new ideas usually don't receive as much reward as they would in a capitalist system. Communism may be considered a more intensive version of socialism. We shall explore that system next.

## Understanding Communism

**Communism** is an economic and political system in which the government makes almost all economic decisions and owns almost all the major factors of production. It intrudes further into the lives of people than socialism does. For example, some communist countries have not allowed their citizens to practice certain religions, change jobs, or move to the town of their choice.

One problem with communism is that the government has no way of knowing what to produce, because prices don't reflect supply and demand as they do in free markets. The government

### brain drain

The loss of the best and brightest people to other countries.

### communism

An economic and political system in which the government makes almost all economic decisions and owns almost all the major factors of production.



must guess what the people need. As a result, shortages of many items, including food and clothing, may develop. Another problem is that communism doesn't inspire businesspeople to work hard because the incentives are not there.

## Understanding Free-Market Capitalism

Under **capitalism** all or most of the factors of production and distribution are owned by individuals. They are operated for profit, and businesspeople, not government officials, decide what to produce and how much, what to charge, and how much to pay workers. They also decide whether to produce goods in their own countries or have them made in other countries. No country is purely capitalist, however. Often the government gets involved in issues such as determining minimum wages, setting farm prices, and lending money to some failing businesses—as it does in the United States. But capitalism is the *foundation* of the U.S. economic system, and of the economies of England, Australia, Canada, and most other industrialized nations.

Capitalism is based on the ideas of Scottish economist Adam Smith. Smith's book *An Inquiry into the Nature and Causes of the Wealth of Nations* (often called simply *The Wealth of Nations*) was published in 1776. Smith believed *freedom* was vital to the survival of any economy, especially the freedom to own land or property and to keep the profits that result from working the land or running a business. He believed people will work long and hard if they have incentives for doing so—that is, if they know they'll be rewarded.<sup>6</sup> As a result of those efforts, the economy will prosper, with plenty of food and all kinds of products available to everyone.

In Adam Smith's view, businesspeople don't necessarily deliberately set out to help others. They work primarily for their own prosperity and growth. Yet as people try to improve their own situation in life, Smith said, their efforts serve as an "invisible hand" that helps the economy grow and prosper through the production of needed goods, services, and ideas. Thus, the phrase **invisible hand** is used to describe the process that turns self-directed gain into social and economic benefits for *all*.



Dmitry Lovetsky/AP Photo

*Russia has been moving away from communism toward a viable market economy. As poverty begins to decline, a middle class is emerging, but many of the country's vast natural resources are difficult to tap. Laws that help promote business are few, and there is an active black market for many goods. Still, many observers are optimistic that Russia can prosper. What do you think?*

### capitalism

An economic system in which all or most of the factors of production and distribution are privately owned and operated for profit.

### invisible hand

A phrase coined by Adam Smith to describe the process that turns self-directed gain into social and economic benefits for all.



Kim Karpeles/Alamy Stock Photo

*According to Adam Smith's theory, business owners are motivated to work hard because they know they will earn, and keep, the rewards of their labor. When they prosper, as the owner of this restaurant has, they are able to add employees and grow, indirectly helping the community and the larger economy grow in the process. What might motivate you to start your own business?*

Under free-market capitalism, people have four basic rights:

1. *The right to own private property.* This is the most fundamental of all rights under capitalism. Private ownership means that individuals can buy, sell, and use land, buildings, machinery, inventions, and other forms of property. They can also pass on property to their children.
2. *The right to own a business and keep all that business's profits (after taxes).* Profits act as important incentives for business owners.
3. *The right to freedom of competition.* Within certain guidelines established by the government, individuals are free to compete with other individuals or businesses in selling and promoting goods and services.
4. *The right to freedom of choice.* People are free to choose where they want to work and what career they want to follow. Other choices people are free to make include where to live and what to buy or sell.

*After years of planning and saving, Jessica Douglass purchased a building with plenty of room to grow and started a business called Flowers and Weeds. The right to own private property and the right to own a business and keep its profits are two of the fundamental rights that exist in the economic system called free-market capitalism. Would either of these rights be viable without the other?*



Courtesy of Annie Janssen

One benefit of the four basic rights of capitalism is that people are willing to take more risks than they might otherwise. Another benefit is that it allows open competition among companies. Businesses must provide customers with high-quality products at fair prices with good service. If they don't, they lose customers to businesses that do. The free market—with its competition and incentives—was a major factor in creating the wealth that industrialized countries now enjoy.

Capitalism, like all economic systems, has its faults. For example, income inequality is a major issue that concerns many today.<sup>7</sup> Business owners and managers usually make more

money and have more wealth than lower-level workers. Yet people who are older, disabled, or sick may not be able to start and manage a business, and others may not have the talent or the drive. What should society do about such inequality?

## The Trend toward Mixed Economies

Although all countries actually have some mix of the two systems, neither free-market nor command economies have resulted in optimal economic conditions. Free-market

**FIGURE 1.4** COMPARISONS OF KEY ECONOMIC SYSTEMS

	CAPITALISM* (United States)	SOCIALISM (Sweden)	COMMUNISM (North Korea)	MIXED ECONOMY (Germany)
<b>Social and Economic Goals</b>	Private ownership of land and business. Liberty and the pursuit of happiness. Free trade. Emphasis on freedom and the profit motive for economic growth.	Public ownership of major businesses. Some private ownership of smaller businesses and shops. Government control of education, health care, utilities, mining, transportation, and media. Very high taxation. Emphasis on equality.	Public ownership of all businesses. Government-run education and health care. Emphasis on equality. Many limitations on freedom, including freedom to own businesses and to assemble to protest government actions.	Private ownership of land and business with government regulation. Government control of some institutions (e.g., mail). High taxation for defense and the common welfare. Emphasis on a balance between freedom and equality.
<b>Motivation of Workers</b>	Much incentive to work efficiently and hard because profits are retained by owners. Workers are rewarded for high productivity.	Capitalist incentives exist in private businesses. Government control of wages in public institutions limits incentives.	Very little incentive to work hard or to produce quality goods or services.	Incentives are similar to capitalism except in government-owned enterprises, which may have fewer incentives.
<b>Control over Markets</b>	Complete freedom of trade within and among nations. Some government control of markets.	Some markets are controlled by the government and some are free. Trade restrictions among nations vary and include some free-trade agreements.	Total government control over markets except for illegal transactions.	Some government control of trade within and among nations (trade protectionism).
<b>Choices in the Market</b>	A wide variety of goods and services is available. Almost no scarcity or oversupply exists for long because supply and demand control the market.	Variety in the marketplace varies considerably from country to country. Choice is directly related to government involvement in markets.	Very little choice among competing goods.	Similar to capitalism, but scarcity and oversupply may be caused by government involvement in the market (e.g., subsidies for farms).
<b>Social Freedoms</b>	Freedom of speech, press, assembly, religion, job choice, movement, and elections.	Similar to mixed economy. Governments may restrict job choice, movement among countries, and who may attend upper-level schools (i.e., college).	Very limited freedom to protest the government, practice religion, or change houses or jobs.	Some restrictions on freedoms of assembly and speech. Separation of church and state may limit religious practices in schools.

\*The United States is a mixed economy based on a foundation of capitalism.



**iSeeit!** Need help understanding basic economic systems? Visit your Connect eBook to view a video for a brief animated explanation.

### mixed economies

Economic systems in which some allocation of resources is made by the market and some by the government.

mechanisms don't seem to respond enough to the needs of those who are poor, elderly, or disabled. Some people also believe that businesses in free-market economies have not done enough to protect the environment. Over time, free-market countries, such as the United States, have adopted many social and environmental programs such as Social Security, welfare, unemployment compensation, and various clean air and water acts.

Socialism and communism haven't always created enough jobs or wealth to keep economies growing fast enough. Thus, communist governments are disappearing, and some socialist governments have been cutting back on social programs and lowering taxes on businesses and workers to generate more business growth and more revenue.

The trend, then, has been for mostly capitalist countries (like the United States) to move toward socialism (e.g., more government involvement in health care), and for some socialist countries to move toward capitalism (more private businesses, lower taxes). All countries, therefore, have some mix of the two systems. Thus, the long-term global trend is toward a blend of capitalism and socialism. The net effect is the emergence throughout the world of mixed economies.

**Mixed economies** exist where some allocation of resources is made by the market and some by the government. Most countries don't have a name for such a system. If free-market mechanisms allocate most resources, the leaders call their system capitalism. If the government allocates most resources, the leaders call it socialism. Figure 1.4 on the previous page compares the various economic systems.

Like most other nations of the world, the United States has a mixed economy. We'll take a closer look at the U.S. economic system after the Test Prep questions.



- What are the benefits and drawbacks of socialism?
- How does communism differ from socialism?
- What are the four basic rights that people have under free-market capitalism?
- What are the characteristics of a mixed economy?

#### LO 1–5

**Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.**

## Understanding the U.S. Economic System

The following sections will introduce the terms and concepts that you, as an informed student and citizen, will need to understand in order to grasp the issues facing government and business leaders in the United States.

### How Free Markets Work

As we've noted, a free market is one in which decisions about what and how much to produce are made by the market—by buyers and sellers negotiating prices for goods and services. For example, if all of us decided we wanted T-shirts supporting our favorite baseball team, the clothing industry would respond in certain ways. Manufacturers and retailers would increase the price of those T-shirts, because they know people are willing to pay more for the shirts they want. They would also realize they could make more money by making



more of those T-shirts. Thus, they have an incentive to pay workers to start earlier and end later. Further, the number of companies making T-shirts would increase. How many T-shirts they make depends on how many we request or buy in the stores. Prices and quantities will continue to change as the number of T-shirts we buy changes.

The *price* tells producers how much to produce. If something is wanted but isn't available, the price tends to go up until someone begins making more of that product, sells the ones already on hand, or makes a substitute. As a consequence, there's rarely a long-term shortage of goods in the United States.



Peter Foley/Bloomberg via Getty Images

In a free market, *prices are not determined by sellers*; they are determined by buyers and sellers negotiating in the marketplace. For example, a seller may want to receive \$50 for a T-shirt, but the quantity buyers demand at that high price may be quite low. If the seller lowers the price, the quantity demanded is likely to increase. How is a price determined that is acceptable to both buyers and sellers? The answer is found in the microeconomic concepts of supply and demand.

**The Basics of Supply and Demand** **Supply** refers to the quantities of products manufacturers or owners are willing to sell at different prices at a specific time. Generally speaking, the amount supplied will increase as the price increases because sellers can make more money with a higher price.

Economists show this relationship between quantity supplied and price on a graph. Figure 1.5 shows a simple supply curve for T-shirts. The price of the shirts in dollars is shown vertically on the left of the graph. The quantity of shirts sellers are willing to supply is shown horizontally at the bottom of the graph. The various points on the curve indicate how many T-shirts sellers would provide at different prices. For example, at a price of \$5 a shirt, a T-shirt vendor would provide only 5 shirts, but at \$50 a shirt the vendor would supply 50 shirts. The supply curve indicates the relationship between the price and the quantity supplied. All things being equal, the higher the price, the more the vendor will be willing to supply.

**Demand** refers to the quantity of products that people are willing to buy at different prices at a specific time. Generally speaking, the quantity demanded will increase as the price decreases. Again, we can show the relationship between price and quantity demanded in a graph. Figure 1.6 shows a simple demand curve for T-shirts. The various points on the graph indicate the quantity demanded at various prices. For example, at \$45, buyers

*The economic concept of demand measures the quantities of goods and services that people are willing to buy at a given price. All else equal, the lower the price, the higher the demand will be. Do you think there would be this many customers rushing to shop on Black Friday if it wasn't for those low-price/low-quantity deals?*

### supply

The quantity of products that manufacturers or owners are willing to sell at different prices at a specific time.



**iSeeit!** Need help understanding supply and demand? Visit your Connect eBook to view a video for a brief animated explanation.

### demand

The quantity of products that people are willing to buy at different prices at a specific time.

**market price**

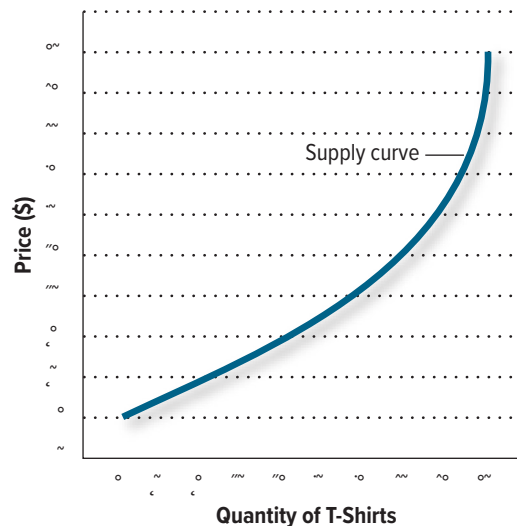
The price determined by supply and demand.

**perfect competition**

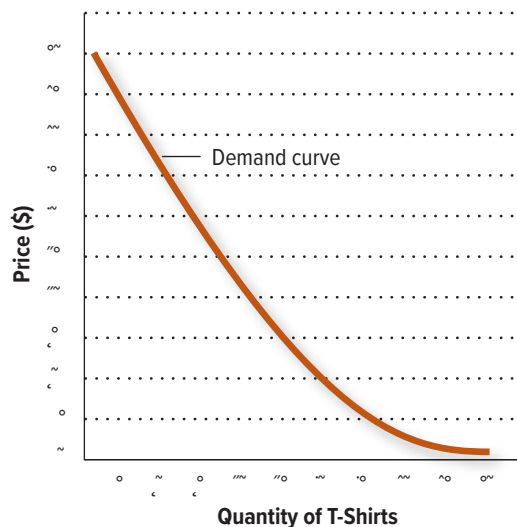
The degree of competition in which there are many sellers in a market and none is large enough to dictate the price of a product.

**FIGURE 1.5 THE SUPPLY CURVE AT VARIOUS PRICES**

The supply curve rises from left to right. Think it through. The higher the price of T-shirts goes (the vertical axis), the more sellers will be willing to supply.

**FIGURE 1.6 THE DEMAND CURVE AT VARIOUS PRICES**

This is a simple demand curve showing the quantity of T-shirts demanded at different prices. The demand curve falls from left to right. It is easy to understand why. The lower the price of T-shirts, the higher the quantity demanded.



demand just 5 shirts, but at \$5, the quantity demanded would increase to 35 shirts. All things being equal, the lower the price, the more buyers are willing to buy.

You might realize from Figures 1.5 and 1.6 that the key factor in determining the quantities supplied and demanded is *price*. If you were to lay the two graphs one on top of the other, the supply curve and the demand curve would cross where quantity demanded and quantity supplied are equal. Figure 1.7 illustrates that point. At a price of \$15, the quantity of T-shirts demanded and the quantity supplied are equal (25 shirts). That crossing point is known as the *equilibrium point* or *equilibrium price*. In the long run, that price will become the market price. **Market price**, then, is determined by supply and demand. It is the price toward which the market will trend.

Eventually, supply will equal demand if nothing interferes with market forces. The Making Ethical Decisions box raises an interesting question about when pricing may be a bit out of control and what to do about it.

**Competition within Free Markets** Economists generally agree there are four different degrees of competition: (1) perfect competition, (2) monopolistic competition, (3) oligopoly, and (4) monopoly.

**Perfect competition** exists when there are many sellers in a market and none is large enough to dictate the price of a product. Sellers' products appear to be identical, such as agricultural products like apples, corn, and potatoes. However, there are no true examples



## MAKING ETHICAL DECISIONS

## Bad Medicine for Consumers?

**Y**our company, a large pharmaceutical firm, acquired a drug called Relivoform when it bought a generic drugmaker. The purchased company was the market's leading supplier of the drug, and it was by far its most profitable product. Relivoform is a major chemotherapy drug important in the treatment of liver cancer. It costs \$300 per treatment, and many patients rely on it to control the spread of their cancer.

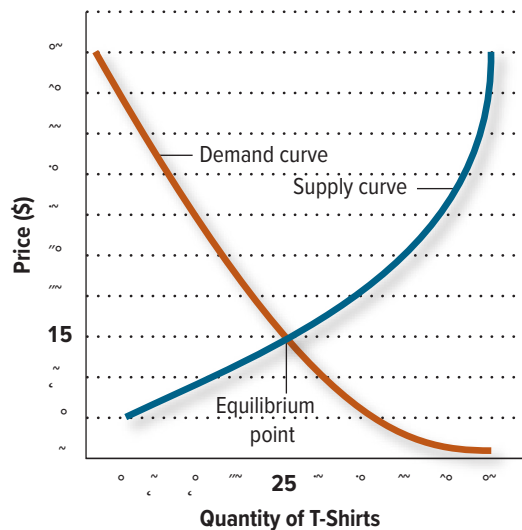
Currently, your company has many new drugs in development costing the company millions in

research and testing. It may be years before the Food and Drug Administration approves the new drugs and you can get them into the market. Your finance committee has recommended increasing the price of Relivoform to \$3,000 per treatment to help alleviate the development costs of new drugs. Since your company now controls the distribution of the drug (even though it's a generic), you doubt any competitors could immediately impact your market. When word leaked out that Relivoform's price may increase 10-fold, the



fluxfoto/Getty Images

public reacted with rage, accusing your firm of favoring profits over patients' needs. Will you follow your committee's recommendation and raise the price? What are your alternatives? What might be the consequences of each?



**FIGURE 1.7 THE  
EQUILIBRIUM POINT**

The place where quantity demanded and quantity supplied meet is called the equilibrium point. When we put both the supply and demand curves on the same graph, we find that they intersect at a price where the quantity supplied and the quantity demanded are equal. In the long run, the market price will tend toward the equilibrium point.

of perfect competition. Today, government price supports and drastic reductions in the number of farms make it hard to argue that even farming represents perfect competition.

Under **monopolistic competition** a large number of sellers produce very similar products that buyers nevertheless perceive as different, such as hot dogs, sodas, personal computers, and T-shirts. Product differentiation—the attempt to make buyers think similar products are different in some way—is a key to success.

An **oligopoly** is a degree of competition in which just a few sellers dominate a market, as we see in tobacco, gasoline, automobiles, aluminum, and aircraft. One reason some industries remain in the hands of a few sellers is that the initial investment required to enter the business often is tremendous. Think, for example, of how much it would cost to start a new airplane manufacturing facility.

A **monopoly** occurs when one seller controls the total supply of a product or service, and sets the price. In the United States, laws prohibit the creation of monopolies. Nonetheless, the U.S. legal system has permitted monopolies in the markets for public utilities that

### **monopolistic competition**

The degree of competition in which a large number of sellers produce very similar products that buyers nevertheless perceive as different.

### **oligopoly**

A degree of competition in which just a few sellers dominate the market.

### **monopoly**

A degree of competition in which only one seller controls the total supply of a product or service, and sets the price.



sell natural gas, water, and electric power. These companies' prices and profits are usually controlled by public service commissions to protect the interest of buyers.

## Key Economic Indicators

Three major indicators of economic conditions are (1) the gross domestic product (GDP), (2) the unemployment rate, and (3) price indexes. Another important economic indicator is the increase or decrease in productivity. When you read business literature, you'll see these terms used again and again. Let's explore what they mean.

### gross domestic product (GDP)

The total value of final goods and services produced in a country in a given year.

**Gross domestic product (GDP)** is the total value of final goods and services produced in a country in a given year. Both domestic and foreign-owned companies can produce the goods and services included in GDP, as long as the companies are located within the country's boundaries. For example, production values from Japanese automaker Honda's factory in Ohio are included in U.S. GDP. Revenue generated by Ford's factory in Mexico is included in Mexico's GDP, even though Ford is a U.S. company. Almost every discussion about a nation's economy is based on GDP. If growth in GDP slows or declines, businesses may feel many negative effects. A major influence on the growth of GDP is the productivity of the workforce—that is, how much output workers create with a given amount of input.

### unemployment rate

The number of civilians at least 16 years old who are unemployed and tried to find a job within the prior four weeks.

The **unemployment rate** refers to the percentage of civilians at least 16 years old who are unemployed *and tried to find a job within the prior four weeks*. The unemployment rate was over 7 percent in 2013 and was down below 4 percent in 2019 (see Figure 1.8).<sup>8</sup> Most economists consider a rate of 4 percent or 5 percent to be functionally full employment. However, many argue that the unemployment statistics don't accurately measure the pain being felt by those who have been unemployed for a long time or those who have simply given up looking for a job.<sup>9</sup> This is particularly true of prime-age men between 25 and 54 who neither have jobs nor have looked for one recently.<sup>10</sup>

### inflation

A general rise in the prices of goods and services over time.

Price indexes help gauge the health of the economy by measuring the levels of inflation, disinflation, deflation, and stagflation. **Inflation** is a general rise in the prices of goods and services over time. The official definition is "a persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of goods and services."<sup>11</sup> Thus, it is also described as "too many dollars chasing too few goods." Rapid inflation is scary. If the prices of goods and services go up by just 7 percent a year, they will double in about 10 years. The Reaching Beyond Our Borders box highlights several examples of inflation out of control. In fact, way out of control.

### disinflation

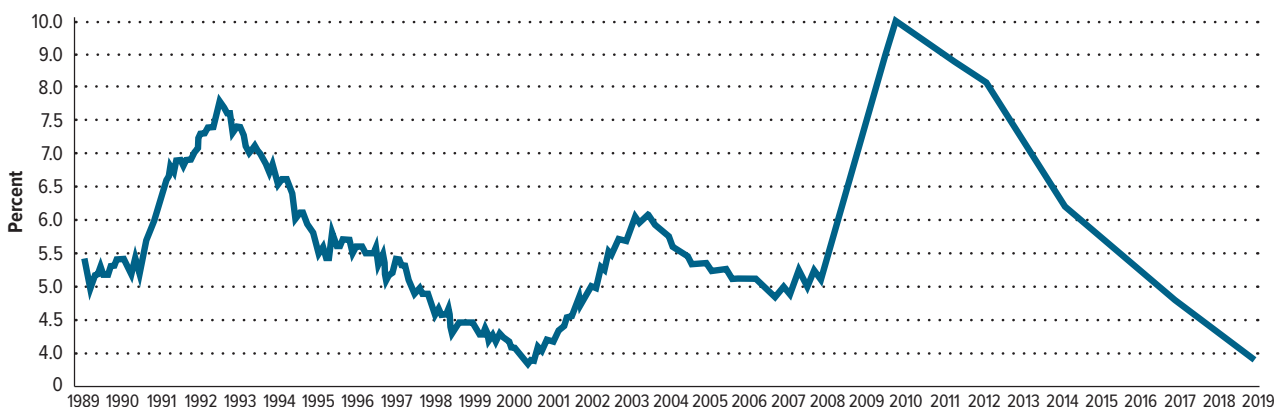
A situation in which price increases are slowing (the inflation rate is declining).

### deflation

A situation in which prices are declining.

**Disinflation** occurs when price increases are slowing (the inflation rate is declining). That was the situation in the United States throughout the 1990s. **Deflation** means that prices are declining. It occurs when countries produce so many goods that people cannot afford

**FIGURE 1.8** U.S. UNEMPLOYMENT RATE 1989–2019





If you are familiar with the Rule of 72, you know it's a simple way to measure how long it would take for prices to double at a given rate of inflation. For example, if inflation is growing at 6 percent a year, prices would double in 12 years (6 divided into 72). This would be an unacceptable inflation rate in the United States, where the Federal Reserve targets keeping price increases at 2 percent (or less) a year. Well, what if prices went up 221 percent in one month? Impossible? Unfortunately, not in Venezuela, which is the most recent example of hyperinflation.

Hyperinflation is when the price of goods and services rises by 50 percent a month. It often starts when a country's government prints more money to pay for excess spending. In Venezuela, prices increased by 63 percent in 2014, 121 percent in 2015, 481 percent in 2016, 2,616 percent in 2017, 80,000 percent in 2018, and over 10,000,000 percent in 2019! In fact, things got so bad that Venezuela's currency, the bolivar, collapsed so low that cash to pay for goods and services was being weighed instead of counted. The country is now facing shortages



Manaure Quintero/Bloomberg via Getty Images

of food and medicine, with children being affected harshly.

Venezuela is not the first country to suffer the ravages of hyperinflation. German hyperinflation was a classic example after World War I, when prices were doubling every three days. Pictures of Germans pushing wheelbarrows full of marks (German currency) to buy a loaf of bread were common. Zimbabwe had hyperinflation from 2004 to 2009. Its economy faced an inflation rate of 98 percent a day, with prices doubling every 24 hours.

The price of a Big Mac or cup of Starbucks coffee doubling every day doesn't sound great to us. Let's hope the Federal Reserve stays vigilant against inflation and keeps our rate at or below 2 percent.

Sources: Juan Forero, "Hyperinflation Shatters Venezuelan Manufacturing," *The Wall Street Journal*, March 5, 2019; Steve Hanke, "Venezuela's Hyperinflation Hits 80,000% per Year in 2018," *Forbes*, January 1, 2019; Girish Gupta, "Venezuela 2017 Annual Inflation at 2,616 Percent," Reuters, January 8, 2018; Garth Friesen, "The Path to Hyperinflation: What Happened to Venezuela?," *Forbes*, August 7, 2018; Seana Davis, Emmanuelle Saliba, and Alex Morgan, "Venezuela: All My Life's Savings Were Destroyed by Hyperinflation," *EuroNews*, February 15, 2019.

to buy them all (too few dollars are chasing too many goods). While declining prices might sound good, it's an indication that economic conditions are deteriorating.<sup>12</sup> **Stagflation** occurs when the economy is slowing but prices are going up anyhow.<sup>13</sup>

The **consumer price index (CPI)** consists of monthly statistics that measure the pace of inflation or deflation. The government can compute the cost of goods and services, including housing, food, apparel, and medical care, to see whether or not they are going up or down.<sup>14</sup> Today, however, the government is relying more on the measure of **core inflation**. That means the CPI minus food and energy costs. Since the cost of food and energy can have temporary price shocks, the inflation measures reported (core inflation) are actually lower than real costs. The CPI is important to you because some wages and salaries, rents and leases, tax brackets, government benefits, and interest rates are based on this data.

### **stagflation**

A situation when the economy is slowing but prices are going up anyhow.

### **consumer price index (CPI)**

Monthly statistics that measure the pace of inflation or deflation.

### **core inflation**

CPI minus food and energy costs.

**producer price index (PPI)**

An index that measures the change in prices at the wholesale level.

**business cycles**

The periodic rises and falls that occur in economies over time.

**recession**

Two or more consecutive quarters of decline in the GDP.

**depression**

A severe recession, usually accompanied by deflation.

The **producer price index (PPI)** measures the change in prices at the wholesale level. It tracks price changes in nearly all industries in the goods-producing sectors of the U.S. economy.<sup>15</sup> Other indicators of the economy's condition include housing starts, retail sales, and changes in personal income. You can learn more about such indicators by reading business periodicals, listening to business broadcasts on radio and television, and exploring business sites online.

## The Business Cycle

**Business cycles** are the periodic rises and falls that occur in economies over time. Economists look at a number of business cycles, from seasonal cycles that occur within a year to cycles that occur every 48–60 years.

Economist Joseph Schumpeter identified the four phases of long-term business cycles as boom–recession–depression–recovery:

1. An *economic boom* is just what it sounds like—business is booming.
2. **Recession** is two or more consecutive quarters of decline in the GDP. In a recession prices fall, people purchase fewer products, and businesses fail. A recession brings high unemployment, increased business failures, and an overall drop in living standards.
3. A **depression** is a severe recession, usually accompanied by deflation. Business cycles rarely go through a depression phase. In fact, while there were many business cycles during the 20th century, there was only one severe depression (1930s).
4. A *recovery* occurs when the economy stabilizes and starts to grow. This eventually leads to an economic boom, starting the cycle all over again.

Since dramatic swings up and down in the economy cause all kinds of disruptions to businesses, the government tries to minimize such changes. It uses fiscal policy and monetary policy to try to keep the economy from slowing too much or growing too rapidly. We will discuss those tools after the Test Prep questions.



- In a free-market economy, how do businesspeople know what to produce and in what quantity?
- How are prices determined?
- Name the three economic indicators and describe how well the United States is doing based on each indicator.
- What's the difference between a recession and a depression?

**LO 1–6**

**Contrast fiscal policy and monetary policy, and explain how each affects the economy.**

**fiscal policy**

The federal government's efforts to keep the economy stable by increasing or decreasing taxes or government spending.

## Stabilizing the Economy through Fiscal Policy

**Fiscal policy** refers to the federal government's efforts to keep the economy stable by increasing or decreasing taxes or government spending. When the government employs fiscal policy it is following the basic economic theory of John Maynard Keynes.<sup>16</sup> **Keynesian economic theory** is the theory that a government policy of increasing spending and cutting taxes could stimulate the economy in a recession.<sup>17</sup>

The first fiscal policy tool is taxation. Theoretically, high tax rates tend to slow the economy because they draw money away from the private sector and put it into the government. High tax rates may discourage small-business ownership because they decrease the profits businesses can earn and make the effort less rewarding. It follows, then, that low tax rates will theoretically give the economy a boost.

The second fiscal policy tool is government spending on defense, social programs, education, infrastructure (e.g., roads, bridges, and utilities), and so on. Such spending, however, can increase the national deficit.<sup>18</sup> The national deficit is the amount of money the federal government spends beyond what it collects in taxes for a given fiscal year.<sup>19</sup> The deficit was almost \$600 billion in 2016. It ballooned to over \$800 billion in 2018 and was \$1.1 trillion in 2020.<sup>20</sup> Economists attribute this increased deficit to less money coming in due to recent tax cuts and more money going out due to retiring Baby Boomers and health care costs.<sup>21</sup> Such deficits increase the national debt. The **national debt** is the sum of government deficits over time. The national debt is now almost \$23 trillion (see Figure 1.9).<sup>22</sup> If the government takes in more revenue than it spends (i.e., tax revenues exceed expenditures), there is a national *surplus*. That is not likely to happen soon.

### Keynesian economic theory

The theory that a government policy of increasing spending and cutting taxes could stimulate the economy in a recession.

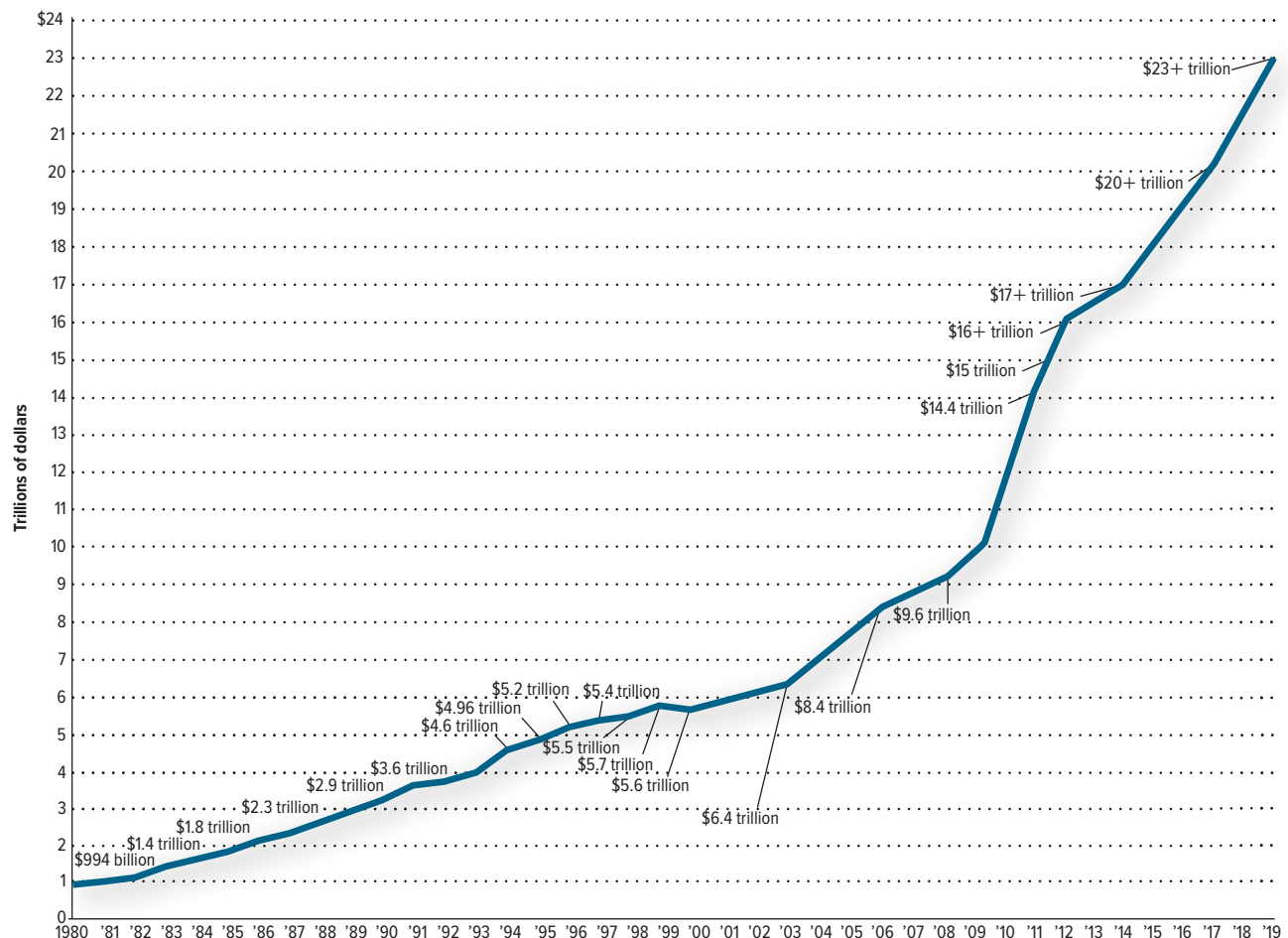
### national debt

The sum of government deficits over time.

## Using Monetary Policy to Keep the Economy Growing

Have you ever wondered what organization adds money to or subtracts money from the economy? The answer is the Federal Reserve Bank (the Fed). The Fed is a semiprivate organization that is not under the direct control of the government but does have members

FIGURE 1.9 THE NATIONAL DEBT



**monetary policy**

The management of the money supply and interest rates by the Federal Reserve Bank.

appointed by the president. We will discuss the Fed in detail when we look at banking in Chapter 16. Now we simply introduce monetary policy and the role of the Fed in controlling the economy. **Monetary policy** is the management of the money supply and interest rates by the Federal Reserve Bank. The Fed's most visible role is the raising and lowering of interest rates. When the economy is booming, the Fed tends to raise interest rates. This makes money more expensive to borrow. Businesses thus borrow less, and the economy slows as businesspeople spend less money on everything they need to grow, including labor and machinery. The opposite is true when the Fed lowers interest rates. Businesses tend to borrow more, and the economy is expected to grow. Raising and lowering interest rates should help control the rapid ups and downs of the economy.

The Fed also controls the money supply. A simple explanation of this function is that the more money the Fed makes available to businesspeople and others, the faster the economy is supposed to grow. To slow the economy (and prevent inflation), the Fed lowers the money supply.

To sum up, there are two major tools for managing the economy of the United States: fiscal policy (using government taxes and spending) and monetary policy (the Fed's control over interest rates and the money supply). The goal is to keep the economy growing so that more people can rise up the economic ladder and enjoy a higher standard of living and quality of life.



- How does the government manage the economy using fiscal policy?
- What does the term *monetary policy* mean? What organization is responsible for monetary policy?

**LO 1–7**

Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.

## The Evolution of U.S. Business

Businesses in the United States have become so productive that they need fewer workers than ever before to produce goods. If global competition and improved technology are putting skilled people out of work, should we be concerned about the prospect of fewer jobs and lower incomes? Where will the jobs be when you graduate? These important questions force us all to look briefly at the U.S. economy and its future.

### Progress in the Agricultural and Manufacturing Industries

The United States has experienced strong economic development since the 1800s. The agricultural industry led the way, providing food for the United States and much of the world. Cyrus McCormick's invention of the harvester in 1834, other inventions such as Eli Whitney's cotton gin, and modern improvements on such equipment did much to make large-scale farming successful. Technology has made modern farming so efficient that the number of farmers has dropped from about 33 percent of the population to less than 1 percent today.



Agriculture is still a major industry in the United States. What has changed is that the millions of small farms that existed previously have been replaced by some huge farms, some merely large farms, and some small but highly specialized farms. The loss of farmworkers over the past century is not a negative sign. It is instead an indication that U.S. agricultural workers are the most productive in the world.

Most farmers who lost their jobs during the 19th and 20th centuries went to work in factories springing up around the country. Manufacturers, like farms, began using new technology, new tools, and machines to become more productive. Eventually the consequence in manufacturing, as in farming, was the elimination of many jobs.

Again, the loss to society is minimized if the wealth created by increased productivity and efficiency creates new jobs elsewhere—and that's exactly what has happened over the past 50 years. Many workers in the industrial sector found jobs in the growing service sector. Most of those who can't find work today are people who need retraining and education to become qualified for jobs that now exist or will exist in the near future, such as building wind farms or making electric cars. We'll discuss the manufacturing sector and production in more detail in Chapter 8.



Richard Hamilton Smith/Newscom

*Agriculture is one of the largest and most important industries in the United States. Technology has increased productivity and made farmers more efficient, allowing for larger farms. This trend has helped reduce the increase in price of some foods for consumers, but has also reduced the number of small, family-run farms. Does the new technology also help smaller farms compete? If so, how?*

## Progress in the Service Industries

In the past, the fastest-growing industries in the United States produced goods like steel, automobiles, and machine tools. Today, the fastest-growing firms provide services in areas such as law, health, telecommunications, entertainment, and finance.

Together, services make up nearly 80 percent of the value of the U.S. economy. Since the mid-1980s, the service industry has generated almost all the increases in employment. Although service-sector growth has slowed, it remains the largest area of growth. Chances are very high that you'll work in a service job at some point in your career.<sup>23</sup> Figure 1.10 on the next page lists many service-sector jobs; look it over to see where the careers of the future are likely to be.

Another bit of good news is that there are *more* high-paying jobs in the service sector than in the goods-producing sector. High-paying service-sector jobs abound in health care, accounting, finance, entertainment, telecommunications, architecture, law, software engineering, and more.<sup>24</sup> Projections are that some areas of the service sector will grow rapidly, while others may have much slower growth (see the Adapting to Change box on the next page). The strategy for college graduates is to remain flexible, find out where jobs are being created, and move when appropriate.

## Your Future in Business

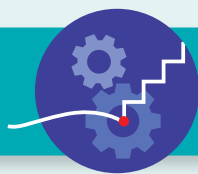
Despite the growth in the service sector we've described above, the service era now seems to be coming to a close as a new era is beginning. We're in the midst of an information-based global and technical revolution that will alter all sectors of the economy: agricultural, industrial, and service. It's exciting to think about the role you'll play in that revolution. You may be a leader who will implement the changes and accept the challenges of world competition based on world quality standards. This book will introduce you to some of the concepts that make such leadership possible, not just in business but also in government agencies and nonprofit organizations. Business can't prosper in the future without the cooperation of government and social leaders throughout the world.



**FIGURE 1.10 WHAT IS THE SERVICE SECTOR?**

There's much talk about the service sector, but few discussions actually list what it includes. Here are examples of businesses in the service sector.

Examples of Businesses in the Service Sector							
Amusement and Recreation Services	Amusement parks	Ice skating rinks	Bowling alleys	Pool halls	Botanical gardens	Infotainment	Carnivals
	Racetracks	Circuses	Golf courses	Symphony orchestras	Restaurants	Fairs	Video rentals
Business Services	Collection agencies	Management services	Equipment rental	Trash collection	Computer programming	Exterminating	Research & development labs
	Window cleaning	Tax preparation	Web design	Commercial photography	Accounting	Commercial art	Ad agencies
	Public relations	Consulting	Detective agencies	Interior design	Stenographic services	Employment agencies	
Legal Services	Lawyers	Paralegals	Notary public				
Educational Services	Schools	Libraries	Online schools	Computer schools			
Health Services	Chiropractors	Nursery care	Dentists	Physicians	Medical labs	Dental labs	
Motion Picture Industry	Production	Distribution	Theaters	Drive-ins			
Social Services	Job training	Elder care	Family services	Child care			
Automotive Repair Services and Garages	Transmission repair	Tire retreading	Exhaust system shops	Truck rental	Auto rental	Paint shops	Parking lots
	Car washes						
Financial Services	Banking	Real estate agencies	Investment firms (brokers)	Insurance			
Personal Services	Photographic studios	Shoe repair	Tax preparation	Laundries	Funeral homes	Linen supply	
	Beauty shops	Child care	Health clubs	Diaper service	Carpet cleaning		
Lodging Services	Hotels, rooming houses, and other lodging places	Sporting and recreation camps	Trailer parks and campsites for transients				
Cultural Institutions	Noncommercial museums	Art galleries	Botanical and zoological gardens				
Selected Membership Organizations	Civic associations	Business associations					
Miscellaneous Services	Tele-communications	Architectural	Engineering	Utilities	Lawn care	Vending	Delivery
	Surveying	Septic tank cleaning	Radio and television	Sharpening	Reupholstery	Watch	Welding



## ADAPTING TO **CHANGE**

### *Services Expand the Circular Economy*

**W**hen is the last time you bought a movie on DVD? Today most of us watch movies on Netflix or some other on-demand service. Same with music—why store stacks of CDs when you can use services like Spotify? All sorts of products are becoming services. For example, you store files in the cloud instead of your computer. You can take Ubers or Lyfts instead of owning a car. Businesses can rent office carpets by the month, rent lighting, or print by the page.

Technology enables a large variety of products to be offered as services. The Internet of Things (IoT, see Chapter 13) put sensors on all sorts of things that allow companies to track usage, measure performance, and develop new business models. For example, GPS enables car companies to provide “mobility services” (such as BMW’s ReachNow, General Motors’s Maven, and Zipcar’s car-sharing services). Some ride-sharing services are beginning to

use technology called *telematics* to track drivers’ performance. Sensors in the drivers’ cell phones can track when they speed, cut corners, brake suddenly, or send texts while driving.

The product-as-service model is one way to move away from a “take-make-dispose” economy (i.e., take raw materials, make a product, and dispose of it when you’re finished with it) toward a more *circular economy* that reduces waste. Companies that retain ownership of their products maintain them and extend their life cycles. Instead of planning for obsolescence so we buy new versions of the products more often, companies that provide products as services have an incentive to



Brian Snyder/Reuters/Alamy Stock Photo

make products that last as long as possible and that can be repaired easily and cheaply. Think of all the landfill space that would save.

Sources: Adele Peters, “Most U.S. Companies Say They Are Planning to Transition to a Circular Economy,” *Fast Company*, February 5, 2019; Douglas MacMillan, “Car Apps Test Tracking of Drivers,” *The Wall Street Journal*, January 27, 2016; Ben Schiller, “How Netflixication Can Deliver a Waste-Free Circular Economy,” *Fast Company*, March 13, 2017; Emily Delbridge, “The 10 Best Car Insurance Policies for Seniors of 2019,” *The Balance*, thebalance.com, March 1, 2019.

## ? TESTPREP

- What major factor caused people to move from farming to manufacturing and from manufacturing to the service sector?
- What does the future look like for tomorrow’s college graduates?

# SUMMARY

**LO 1-1**

**Describe the relationship between profit and risk, and show how businesses and nonprofit organizations can raise the standard of living for all.**

- **What is the relationship of businesses' profit to risk assumption?**

*Profit* is money a business earns above and beyond the money that it spends for salaries and other expenses. Businesspeople make profits by taking risks. *Risk* is the chance an entrepreneur takes of losing time and money on a business that may not prove profitable. A loss occurs when a business's costs and expenses are higher than its revenues.

- **Who are stakeholders, and which stakeholders are most important to a business?**

Stakeholders include customers, employees, stockholders, suppliers, dealers, bankers, the media, people in the local community, environmentalists, and elected government leaders. The goal of business leaders is to try to recognize and respond to the needs of these stakeholders and still make a profit.

**LO 1-2**

**Describe how each of the five elements of the business environment affect business.**

- **What are the five elements of the business environment?**

The five elements of the business environment are: economic and legal environment, technological environment, competitive environment, social environment, and global business environment.

- **How can the legal and economic system encourage entrepreneurs to take the risks of starting a business?**

Among other things, the government can begin to encourage entrepreneurship by allowing private ownership of businesses and passing laws that enable businesspeople to write contracts that are enforceable in court.

- **How has technology benefited workers, businesses, and consumers?**

Technology enables workers to be more effective, efficient, and productive.

- **What are some ways in which businesses meet and beat competition?**

Some companies have found a competitive edge by focusing on making high-quality products. Companies must understand their customers' needs and wants, establish strong relationships with suppliers, and differentiate themselves from their competitors.

- **How have social changes affected businesses?**

Changing demographics create many opportunities and challenges for businesses today. For example, the growing older population opens many opportunities for new businesses in recreation and health care. On the other hand, providing Social Security benefits to senior citizens draws huge amounts of money from the working population, reducing the money they have to spend.

- **What are some of the factors in the global environment that affect business?**

International factors that affect business include such things as trade agreements, international economic conditions, war and terrorism, climate change, and so forth.

**LO 1–3 Explain basic economics.**■ **What is economics?**

Economics is the study of how society chooses to employ resources to produce goods and services and distribute them for consumption among various competing groups and individuals.

■ **What are the two branches of economics?**

There are two major branches of economics: *macroeconomics* studies the operation of a nation's economy as a whole, and *microeconomics* studies the behavior of people and organizations in particular markets (e.g., why people buy smaller cars when gas prices go up).

■ **How can we be assured of having enough resources?**

Resource development is the study of how to increase resources and create the conditions that will make better use of them.

■ **What are the five factors of production?**

The five factors of production are land, labor, capital, entrepreneurship, and knowledge. Of these, the most important are entrepreneurship and knowledge. Entrepreneurs are people who risk time and money to start and manage a business. What makes countries rich today is a combination of *entrepreneurship* and the effective use of *knowledge*.

**LO 1–4 Compare and contrast the various types of economic systems and explain the trend toward mixed economies.**■ **What is socialism?**

*Socialism* is an economic system based on the premise that some businesses should be owned by the government.

■ **What are the advantages and disadvantages of socialism?**

Socialism intends to create more social equity. Workers in socialist countries usually receive more education, health care, and other benefits and also work fewer hours, with longer vacations. The major disadvantage of socialism is that because of high taxes, it lowers the incentive to start a business or to work hard. Socialist economies tend to have a higher unemployment rate and a slower growth rate than capitalist economies.

■ **How does communism differ from socialism?**

Under communism, the government owns almost all major production facilities and dictates what gets produced and by whom. Communism is also more restrictive when it comes to personal freedoms, such as religious freedom.

■ **What is capitalism and how does it create a climate for economic growth?**

Under capitalism, all or most of the factors of production and distribution are owned by individuals. Businesspeople don't often deliberately set out to help others; they work mostly for their own prosperity and growth. Yet people's efforts to improve their own situation in life act like an invisible hand to help the economy grow and prosper through the production of needed goods, services, and ideas.

■ **What are the basic rights people have under capitalism?**

The four basic rights under capitalism are (1) the right to own private property, (2) the right to own a business and to keep all of that business's profits after taxes, (3) the right to freedom of competition, and (4) the right to freedom of choice.

■ **What is a mixed economy?**

A *mixed economy* is part capitalist and part socialist. Some businesses are privately owned, but taxes tend to be high to distribute income more evenly among the population.

■ **What are the benefits of mixed economies?**

A mixed economy has most of the benefits of wealth creation that free markets bring plus the benefits of greater social equality and concern for the environment that socialism promises.

**LO 1–5**

**Describe the economic system of the United States, including the significance of key economic indicators (especially GDP), productivity, and the business cycle.**

- **The United States has a free-market economy. How does the free market work?**

The free market is one in which buyers and sellers negotiating prices for goods and services influence the decisions about what gets produced and in what quantities. Buyers' decisions in the marketplace tell sellers what to produce and in what quantity. When buyers demand more goods, the price goes up, signaling suppliers to produce more. The higher the price, the more goods and services suppliers are willing to produce. Price is the mechanism that allows free markets to work.

- **What are the key economic indicators in the United States?**

*Gross domestic product (GDP)* is the total value of final goods and services produced in a country in a given year. The *unemployment rate* refers to the percentage of civilians at least 16 years old who are unemployed and tried to find a job within the most recent four weeks. The *consumer price index (CPI)* measures changes in the prices of about 400 goods and services that consumers buy.

- **What are the four phases of business cycles?**

In an *economic boom*, businesses do well. A *recession* occurs when two or more quarters show declines in the GDP, prices fall, people purchase fewer products, and businesses fail. A *depression* is a severe recession. *Recovery* occurs when the economy stabilizes and starts to grow.

**LO 1–6**

**Contrast fiscal policy and monetary policy, and explain how each affects the economy.**

- **What is fiscal policy?**

*Fiscal policy* consists of government efforts to keep the economy stable by increasing or decreasing taxes or government spending.

- **What is the importance of monetary policy to the economy?**

Monetary policy is the management of the money supply and interest rates. When unemployment gets too high, the Federal Reserve Bank (the Fed) may put more money into the economy and lower interest rates. That is supposed to provide a boost to the economy as businesses borrow and spend more money and hire more people.

**LO 1–7**

**Review how past trends are being repeated in the present and what those trends mean for tomorrow's college graduates.**

- **What is the history of our economic development in the United States, and what does it tell us about the future?**

Agricultural workers displaced by improved farm technology went to work in factories. Improved manufacturing productivity and increased competition from foreign firms contributed to the development of a service economy in the United States. The service era is now giving way to an information-based global revolution that will affect all sectors of the economy. The secret to long-term success in such an economy is flexibility and continuing education to be prepared for the opportunities that are sure to arise.

- **What job opportunities for college graduates exist in the service sector?**

Check over Figure 1.10, which outlines the service sector. That is where you are most likely to find the fast-growing firms of the future.

brain drain 12	free-market economies 11	oligopoly 19
business 4	goods 4	perfect competition 18
business cycles 22	gross domestic product (GDP) 20	producer price index (PPI) 22
business environment 7	inflation 20	productivity 8
capitalism 13	invisible hand 13	profit 4
command economies 11	Keynesian economic theory 22	recession 22
communism 12	loss 4	resource development 10
consumer price index (CPI) 21	macroeconomics 10	revenue 4
core inflation 21	market price 18	risk 4
deflation 20	microeconomics 10	services 4
demand 17	mixed economies 16	socialism 12
demography 8	monetary policy 24	stagflation 21
depression 22	monopolistic competition 19	stakeholders 5
disinflation 20	monopoly 19	standard of living 4
economics 10	national debt 23	supply 17
entrepreneur 4	nonprofit organization 6	technology 8
factors of production 10		unemployment rate 20
fiscal policy 22		

## KEY TERMS

1. Imagine you are thinking of starting a restaurant in your community. Answer the following questions:
  - a. Who will be the various stakeholders of your business?
  - b. Which of the environmental factors outlined in this chapter might have the biggest impact on your business? How?
2. Many people say that businesspeople do not do enough for society. Some students choose to work for nonprofit organizations instead of businesses because they want to help others. However, businesspeople say that they do more to help others than nonprofits do because they provide jobs for people rather than give them charity. Furthermore, they believe businesses create all the wealth that nonprofit groups distribute.
  - a. How can you find some middle ground in this debate to show that both businesspeople and those who work for nonprofit organizations contribute to society and need to work together more closely to help people?
  - b. How could you use the concepts of Adam Smith to help illustrate your position?

## CRITICAL THINKING

### PURPOSE

To familiarize you with the sources of economic information that are important to business decision makers.

### EXERCISE

Imagine that your manager asked you to help her prepare the company's sales forecast for the coming two years. In the past, she felt that trends in the nation's GDP, U.S. manufacturing, and employment in Illinois were especially helpful in forecasting sales. She would like you to do the following:

1. Go to the Bureau of Economic Analysis website ([bea.gov](http://bea.gov)) and locate the gross domestic product data. Compare the annual figure for the last four years. What do the figures indicate for the next couple of years?

## PUTTING PRINCIPLES TO WORK



2. At the Bureau of Labor Statistics website (bls.gov) under “Industries” in the “Topics” box, click on “Industries at a Glance” to find the information about the manufacturing industry. What is the employment trend in manufacturing over the last four years?
3. Return to the Bureau of Labor Statistics home page (bls.gov) and use the Search feature to find trends in employment for the state of Illinois. Look around the website to see what other information is available. Plot the trend in employment in Illinois over the last four years. On your own, discuss what economic changes may have influenced that trend.
4. Based on the information you have gathered, write a brief summary of what may happen to company sales over the next couple of years.

## DEVELOPING CAREER SKILLS

**KEY:** ● Team ★ Analytic ▲ Communication □ Technology

- □ 1. Use Yelp to find five businesses that provide services in your area. List those businesses and, for each, describe how social trends might affect them in both positive and negative ways. Be prepared to explain your descriptions to your team or the whole class, as your instructor directs.
- □ ▲ 2. Form teams of four or five and discuss the technological and e-commerce revolutions. How much shopping for goods and services do the members of the group do online? What other technology do they use (smartphones, tablets, laptops, etc.)? Discuss what life, school, and work would be like without these devices.
- ▲ ★ 3. In teams, develop a list of the advantages of living in a capitalist society. Then develop lists headed “What are the disadvantages?” and “How could such disadvantages be minimized?” Describe why a person who is poor in a socialist country might reject capitalism and prefer a socialist state.
- ▲ ★ 4. This exercise will help you understand socialism from different perspectives. Form three groups. Each group should adopt a different role in a socialist economy: one group will be the business owners, another group will be workers, and another will be government leaders. Within your group discuss and list the advantages and disadvantages to you of lowering taxes on businesses. Then have each group choose a representative to go to the front of the class and debate the tax issue with the representatives from the other groups.
- ▲ ★ 5. Draw a line and mark one end “Free-Market Capitalism” and the other end “Central Planning.” Mark where on the line the United States is now. Explain why you marked the spot you chose. Students from other countries may want to do this exercise for their own countries and explain the differences to the class.

## CAREER EXPLORATION

At the end of each chapter, we offer a brief list of potential careers that deal with the concepts presented in the chapter. If you are interested in pursuing a major in economics, we’ve listed a few careers to consider after graduation. We’ve also included a few careers in the business sector with the most jobs: services. Find out about the tasks performed, skills needed, pay, and opportunity outlook

in these careers in the *Occupational Outlook Handbook (OOH)* at bls.gov.

- **Economist**—studies the production and distribution of resources, goods, and services by collecting and analyzing data, researching trends, and evaluating economic issues.

- **Statistician**—applies mathematical or statistical theory and methods to collect, organize, interpret, and summarize numerical data to provide useful information.
- **Marketing research analyst**—studies market conditions and helps companies understand what products people want, who will buy them, and at what price.
- **Meeting and event planner**—coordinates all aspects of events and professional meetings, including arranging meeting locations, transportation, and other details.
- **Interior designer**—selects and specifies colors, furniture, and other materials to create useful and stylish interiors for buildings.
- **Network and computer systems administrator**—responsible for the day-to-day operation of computer networks.



## Grubhub and the Dynamic Business Environment

### VIDEO CASE 1

Every night, people all across America ask the same thing: “What’s for dinner?” Entrepreneurs Matt Maloney and Mike Evans realized how common this question can be and decided to do something about it. The pair developed and founded Grubhub, an online and mobile takeout food ordering company. Today, hungry customers can use the company’s digital platform to order meals directly from more than 50,000 takeout restaurants in 1,100 cities throughout the United States.

Like other successful entrepreneurs, Matt and Mike were able to start Grubhub and expand it rapidly thanks to the business environment in the United States. To be successful, businesses must navigate factors that impact the five key business environments: the economic and legal environment, technological environment, competitive

environment, social environment, and global environment. Even though businesses cannot control these environments, they must be quick to adapt to changes that affect them. This video shows us how the changing business environments presented Grubhub with many opportunities and challenges.

#### THINKING IT OVER

1. What are the risks and benefits of becoming an entrepreneur as opposed to working for others?
2. What is the major challenge presented by competitors like Amazon and Uber to Grubhub’s business?
3. How have the changing social and technological environments affected Grubhub?



## Kiva: Giving Poor Entrepreneurs a Chance

### VIDEO CASE 2

Economics impacts people and businesses around the world. Whether or not you are free to start and own a business, how you get financing to launch the business, and how the government supports or interferes with your business depends on what type of economic system exists in your country. In capitalist countries like the United States, individuals are free to start their own companies and find limited interference from the government. In communist countries like North Korea, the government either owns the business or exerts a strong hand in business operations.

Globally, small businesses often drive local economies. Unfortunately, billions of people in the world make \$2 a day or less. In fact, a billion people make less than \$1 a day. It’s not surprising, then, that aspiring entrepreneurs in developing countries have a hard time starting and growing

businesses. In such places, a loan of \$100 or \$200 can make a huge difference in getting a business started. However, access to even such small amounts of capital is often impossible for would-be entrepreneurs to obtain. That’s where microloans from organizations such as Kiva.org come in.

Kiva is an organization founded in 2005 that provides loans to budding entrepreneurs in developing countries so they can invest in a business. Those investments often lead to community growth and employment and help the owners themselves prosper on a moderate scale. The loans are small and referred to as microcredit or microfinancing. Kiva uses a crowdfunding approach to its microfinancing where visitors to its website can browse through pictures and profiles of people from 80 different countries around the world. When they find a business and entrepreneur

they like, they can lend \$25 or more to the business. Borrowers must pay back the money, and when it's repaid, lenders can withdraw the money from Kiva's system or lend it to another entrepreneur. As they become successful, entrepreneurs can borrow more and keep their business growing.

Kiva crowdfunds several thousand loan requests each week. It helps over a million people in over 80 countries, giving them the opportunity to change their lives for the better. This video highlights some of those people, but primarily explains how freedom and a little money can combine to create huge differences in people's lives and their country's quality of life.

Kiva carefully considers several factors before it commits to lending money in a particular country. It first checks to see that the government will allow businesses to receive money and pay it back to lenders from another country. It then looks at how many microfinance institutions are already operating in the country. If the market seems too crowded or saturated, Kiva will not get involved. Finally, Kiva looks for a strong network of field partners (local nonprofit, nongovernmental enterprises) who know the community and can identify legitimate borrowers and distribute the loans to them. Kiva strongly believes lending is a better approach to helping overcome poverty than giving donations. By supporting entrepreneurs, they help grow businesses and the economy by hiring local people.

In developing its mission, Kiva follows the principles set out by Adam Smith who stressed that wealth comes from freedom, the ability to keep the profits from what you do. When people try to maximize profits, they have to hire other people to help them do the work. This provides jobs for others and wealth for the entrepreneur. And, like an invisible hand, the whole community benefits from the entrepreneurs' desire to earn a profit.

Kiva has shown through small loans how important entrepreneurs, freedom, opportunity, and a little bit of money are to economic growth and prosperity. You are hopefully encouraged by this video to participate in helping poor people around the world. You can do this by contributing time and money to organizations like Kiva. You can join the Peace Corps or other groups designed to assist less-developed countries. Microcredit will not singlehandedly solve the economic problems throughout the world, but it's a good start.

### THINKING IT OVER

1. Discuss why many think capitalism gives entrepreneurs the best opportunity to be successful.
2. Why do people in developing countries have such a difficult time getting out of poverty?
3. Why would an entrepreneur in the United States need a microloan from Kiva.org?

## NOTES

1. U.S. Bureau of Labor Statistics, [bls.gov](http://bls.gov), accessed October 2019.
2. Peter High, "Lessons from the Man Who Is Revolutionizing the Grocery Business," *Forbes*, January 14, 2019; Morris Panner, "How Mobile Medical Services Are Improving Health Care," *Forbes*, January 16, 2019.
3. Pragya Agarwal, "How Do We Design Workplaces for Maximum Productivity," *Forbes*, December 23, 2018.
4. Social Security Administration, [ssa.gov](http://ssa.gov), accessed October 2019.
5. Lydia DePillis, "U.S. National Debt Rises \$2 Trillion under Trump," *CNN*, January 4, 2019; Shawn Tully, "America's Disastrous New Normal: A Booming Economy and Soaring Deficits," *Fortune*, January 5, 2019.
6. "What Would Adam Smith Say about Capitalism Today?," *The Economist*, April 16, 2018; Jesse Norman, "What Adam Smith Knew about Trade Wars," *The Wall Street Journal*, August 25, 2018; Brianne Wolf, "Adam Smith Makes a Case for Higher Tariffs—But It Doesn't Work for Trump's Trade Policy," *The Washington Post*, July 12, 2019.
7. Catherine Clifford, "Hedge Fund Billionaire Ray Dalio: 'Capitalism Basically Is Not Working for the Majority of People,'" *CNBC*, January 16, 2019; Lola Fadulu, "Study Shows Income Gap between Rich and Poor Keeps Growing, with Deadly Effects," *The New York Times*, September 10, 2019.
8. U.S. Bureau of Labor Statistics, [bls.gov](http://bls.gov), accessed October 2019.
9. "How the Government Measures Unemployment," U.S. Bureau of Labor Statistics, [bls.gov](http://bls.gov), accessed October 2019; Louis Uchitelle, "Unemployment Is Low, but That's Only Part of the Story," *The New York Times*, July 11, 2019.
10. "Women, Minorities Returning to Workforce," *The Washington Post*, January 12, 2019; Milton Ezrati, "Jobs Report: All Upbeat in Every Way," *Forbes*, January 8, 2019.
11. Donald Rapp, *Bubbles, Booms, and Busts: The Rise and Fall of Financial Assets* (New York: Springer, 2014).
12. Adam Hayes, "Why Is Deflation Bad for the Economy?," *Investopedia*, October 28, 2019.
13. Debbie Carlson, "Should Investors Prepare for Stagflation?," *U.S. News and World Report*, July 30, 2018; Paul R. LaMonica, "The Fed's Worst Nightmare Could Be around the Corner," *CNN Business*, [cnn.com](http://cnn.com), September 30, 2019.

14. U.S. Bureau of Labor Statistics, [bls.gov](http://bls.gov), accessed November 2019.
15. "U.S. Producer Prices Post Biggest Drop in over Two Years," *CNBC*, January 15, 2019; U.S. Bureau of Labor Statistics, [bls.gov](http://bls.gov), accessed November 2019.
16. Madsen Pirie, "The Legacy of John Maynard Keynes," Adam Smith Institute, [adamsmith.org](http://adamsmith.org), June 5, 2019.
17. Will Kenton, "Keynesian Economics," *Investopedia*, [investopedia.com](http://investopedia.com), accessed October 2019.
18. Shawn Tully, "America's Disastrous New Normal: A Booming Economy and Soaring Deficits," *Fortune*, January 5, 2019.
19. "Deficit vs. Debt: What's the Difference?," Peter G. Peterson Foundation, [pgpf.org](http://pgpf.org), accessed October 2019.
20. Kimberly Amadeo, "Current US Federal Budget Deficit," *The Balance*, [thebalance.com](http://thebalance.com), May 8, 2019.
21. Jim Tankersley and Emily Cochrane, "Budget Deficit on Path to Surpass \$1 Trillion Under Trump," *The New York Times*, [nytimes.com](http://nytimes.com), August 21, 2019.
22. Lydia DePillis, "U.S. National Debt Rises \$2 Trillion under Trump," *CNN*, January 4, 2019; Jeffry Bartash, "U.S. on Track to Add \$12 Trillion to National Debt by 2029 Unless Washington Changes Course," *MarketWatch*, January 28, 2019; Troy Adkins, "What the National Debt Means to You," *Investopedia*, [investopedia.com](http://investopedia.com), accessed October 2019; "U.S. Debt Clock," [usdebtclock.org](http://usdebtclock.org), accessed October 2019.
23. Evan Comen and Samuel Stebbins, "25 Industries Experiencing the Fastest Growth in the U.S. Economy," *USA Today*, January 2, 2019; "Big Cities Are No Longer Lands of Opportunity for Middle-Skilled Workers," *Fortune*, January 22, 2019.
24. Prachi Bhardwaj, "This Map Shows the Fastest Growing Job in Every State—and Where New Hires Make over \$100,000," *Money*, January 18, 2019.

## Support at Every Step!

### Connect Tools, Tips, and Tricks!

Whether you're looking for self-serve resources or personalized help before, during, or every step beyond the first day of class – we've got you covered.

[Click here to learn more.](#)

## Student Resources

- **LMS-integrated Connect™ platform**, with a variety of WCAG 2.0 compatible Application Exercises, featuring videos with captions and transcripts.
- **14-day Courtesy Access** at the start of each semester, with low-cost print upgrade option for students who want a full-color printed version of the text.
- **7 days/week Customer Experience Group** student tech support (online, email, phone).

## Faculty Resources

Analytics in SmartBook 2.0 and Connect to help instructors tailor lectures and discussions, including but not limited to:

- **Connect's AACSB-tagged quiz and test banks** provide an easy testing solution, with reports like the Category Analysis Report saving time by providing a one-click solution for displaying mastery of objectives at the individual, section, and course levels.
- **Connect's At-Risk Student Report** provides a visual indicator a way to close the gap with students lacking engagement.
- **SmartBook 2.0's Most Challenging Learning Objectives Report** helps both students and instructors make data-driven decisions about time spent studying and in the classroom, providing insight on the top content struggles for any given SmartBook 2.0 assignment.
- **LMS Integration** keeps everything in one single, secure place, with personal setup assistance and ongoing support from McGraw-Hill's dedicated Implementation Consultants enhancing the seamless experience.
- **Comprehensive instructor resources and support**, including Instructor's Manual, PowerPoint slides, engaging activities, and more.
- **Digital Success Academy Online** Connect user guides, on-demand webinars, and how-tos.
- **Technical support** (Customer Experience Group) by phone, email, or real-time chat.
- **Customized First-Day-of-Class Resources**, to ensure a smooth start to your term.
- **Digital Faculty Consultant network**, for sharing best practices.





# Thank You

Click here to learn more about McGraw-Hill Introduction to Business titles.

**[www.mheducation.com/highered/introduction-to-business](http://www.mheducation.com/highered/introduction-to-business)**

Contact your MH Learning Technology Representative to request an examination copy.

**[mheducation.link/rep](http://mheducation.link/rep)**

**Bill Nickels | Jim McHugh | Susan McHugh**